

City of Muskegon Heights  
61-2030  
**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended December 31, 2003

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

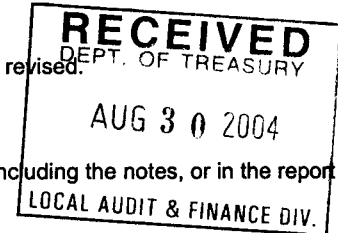
Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Muskegon Heights</b>	County <b>Muskegon</b>
Audit Date <b>12/31/03</b>	Opinion Date <b>7/28/04</b>	Date Accountant Report Submitted to State: <b>8/26/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Brickley DeLong PLC</b>			
Street Address <b>500 Terrace Plaza</b>	City <b>Muskegon</b>	State <b>MI</b>	ZIP <b>49443</b>
Accountant Signature <i>Timothy D. Carter, C.P.A. for Brickley DeLong, PLC</i>		Date <b>8/26/04</b>	

# City of Muskegon Heights

## TABLE OF CONTENTS

List of Elected and Appointed Officials	
Management's Discussion and Analysis.....	i -ix
Independent Auditors' Report.....	1
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets.....	3
Statement of Activities .....	4
Fund Financial Statements	
Balance Sheet—Governmental Funds.....	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	6
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)—Governmental Funds .....	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Deficits).....	8
Statement of Net Assets—Enterprise Funds .....	9
Statement of Revenues, Expenses and Changes in Net Assets— Enterprise Funds.....	10
Statement of Cash Flows—Enterprise Funds .....	11
Statement of Fiduciary Net Assets .....	12
Statement of Changes in Fiduciary Net Assets .....	13
Notes to Financial Statements.....	14
Required Supplemental Information	
Budgetary Comparison Schedule—General Fund.....	35
Other Supplemental Information	
Statements of Other Governmental Funds	
Balance Sheet .....	38
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits).....	39
Combining Statement of Net Assets—Agency Funds .....	40

City of Muskegon Heights  
**LIST OF ELECTED AND APPOINTED OFFICIALS**  
December 31, 2003

ELECTED OFFICIALS

Mayor ..... Rillastine Wilkins

Mayor Pro Tem ..... Willie Burrel

City Council ..... Keith Guy  
Dorothy Scott  
Darrell Paige  
Jackie Darnell  
Kimberly Sims

APPOINTED OFFICIALS

City Manager ..... Melvin C. Burns, II

City Clerk ..... Betty Ivory

Finance Director ..... Lori Doody

City Assessor/Treasurer/Income Tax  
Administrator..... Robert Jackson

# City of MUSKEGON HEIGHTS

2724 Peck Street  
Muskegon Heights, Michigan 49444

Phone (231) 733-8999  
Fax (231) 733-5229

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2003

As management of the City of Muskegon Heights, we present to the readers of the City's financial statements this overview and analysis of the financial activities of the City of Muskegon Heights for the fiscal year ended December 31, 2003. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter. To those familiar with this prior year financial statements or just new to this document, it is important to know that the City of Muskegon Heights is presenting this analysis along with these statements in a new format prescribed by the provisions of the Governmental Accounting Standards Board Statement 34 (GASB 34).

### FINANCIAL HIGHLIGHTS

- The assets of the City of Muskegon Heights exceeded its liabilities of \$22,065,314 at the close of the fiscal year by \$20,739,810 (net assets). This represents a decrease from the prior year of \$1,030,866.
- As of the close of the 2003 fiscal year, the City of Muskegon Heights' governmental activities had net assets totaling \$9,301,165, a 10% reduction from the previous year.
- The City's business-type activities ended the year with \$3,255,807 in unrestricted net asset, in addition to \$400,000 in restricted assets for debt service and another \$400,000 in reserve for the completion of capital projects.
- The City of Muskegon Heights has deficits in two of its significant funds, the General Fund ended the fiscal year with a fund deficit of \$993,485 and Major Street Fund ended the year with a deficit of \$365,761.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City of Muskegon Heights' basic financial statements are comprised of three components: 1) governmental-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

The governmental-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

City of Muskegon Heights  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED**  
December 31, 2003

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the City of Muskegon Heights include general government, public safety, public works, community and economic development and cultural and recreational activities. The business-type activities of the City include water distribution, water filtration and sewer services.

The government-wide financial statements include not only the City of Muskegon Heights (the primary government) but also the legally separate Muskegon Heights Downtown Development Authority. The board of this organization is appointed by the City and given the interrelation of the two, there is some potential liability for the City due to the City's pledge of its full faith and credit for debt obligations. The financial information of this component unit is reported in a separate column from the financial information of the primary government itself.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Muskegon Heights, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories-governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

City of Muskegon Heights  
MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED  
December 31, 2003

The City of Muskegon Heights maintains more than a dozen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered a major fund. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary funds.** The City of Muskegon Heights has one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, water filtration and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for Water, Water Filtration and Sewer funds all of which are major funds.

**Fiduciary funds.** Fiduciary Funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

**Government-wide Financial Analysis**

The first table presented below is a summary of the government-wide statement of net assets for the City of Muskegon Heights. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of December 31, 2003, the City's net assets from governmental activities totaled \$9,301,165 (45%) and \$11,408,408 (55%) from business-type activities, creating a total government-wide net assets total of \$20,709,573. Since this is the first year the City has prepared financial statements following GASB 34, comparisons to fiscal year 2002 are not available.

City of Muskegon Heights  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED**  
December 31, 2003

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the City's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a deficit of \$1,319,489. This deficit represents the lack of discretionary cash or investments that can be used for general governmental operations.

On the other hand, the table depicts a different story for business-type activities. Out of a total of \$11,408,408 in net assets, \$3,225,570 (28%) is unrestricted. Sewer Fund, Water Fund and Water Filtration Fund have unrestricted net assets (deficits) of \$1,517,314, (\$359,587) and \$2,067,843, respectively.

**CITY OF MUSKEGON HEIGHTS NET ASSETS**

	Governmental Activities 2003	Business-type Activities 2003	Total
Current Assets	\$ 1,114,777	\$ 3,292,238	\$ 4,407,015
Restricted Assets	-	3,584,694	3,584,694
Noncurrent Assets	11,113,360	23,669,818	34,783,178
Total Assets	<u>12,228,137</u>	<u>30,546,750</u>	<u>42,774,887</u>
Current Liabilities	1,700,962	1,324,543	3,025,505
Noncurrent Liabilities	1,226,010	17,813,799	19,039,809
Total Liabilities	<u>2,926,972</u>	<u>19,138,342</u>	<u>22,065,314</u>
Net Assets (Deficit)			
Invested in capital assets, net of related debt			
net of related debt	10,128,549	6,350,924	16,479,473
Restricted	492,105	1,831,914	2,324,019
Unrestricted	(1,319,489)	3,225,570	1,906,081
Total net assets (deficit)	<u>\$ 9,301,165</u>	<u>\$ 11,408,408</u>	<u>\$ 20,709,573</u>

**Governmental Activities.** Governmental activities decreased by \$1,030,866 (10%) during the 2003 fiscal year. With all of the City's governmental operations combined, the net result was that its operating revenues were exceeded by its operating expenditures, producing the resulting deficit. The following table depicts this occurrence which will be discussed in more detail later in this analysis.



City of Muskegon Heights  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED**  
December 31, 2003

**Business-type activities.** As was the case in the discussion of net assets, business-type activities depict a distinctly different picture than governmental activities. At the end of the fiscal year, the net assets for business-type activities increased by \$724,321 or 7%. This is most clearly represented by the increase in revenue over expenditures by \$749,720. Three funds comprise the business-type activities. The Sewer and Water funds experienced a decrease in net assets for the year totaling \$204,173. This was offset by a net increase in the Water Supply Fund of \$928,494.

**CITY OF MUSKEGON HEIGHTS CHANGES IN NET ASSETS**

	Governmental Activities 2003	Business-type Activities 2003	Total
<b>Revenues:</b>			
Program Revenues			
Charges for Services	\$ 786,005	\$ 4,205,219	\$ 4,991,224
Operating Grants	613,933	-	613,933
Capital grants and contributions	-	522,393	522,393
General Revenues			
Property taxes	1,894,774	-	1,894,774
Income taxes	926,666	-	926,666
Franchise Fees	94,467	-	94,467
Grants & contributions not restricted	2,816,307	-	2,816,307
Unrestricted investment earnings	23,320	30,040	53,360
Miscellaneous	458,989	-	458,989
Gain (loss) on sale of assets	13,613	-	13,613
<b>Total Revenues</b>	<u>7,628,074</u>	<u>4,757,652</u>	<u>12,385,726</u>
<b>Expenses:</b>			
General Government	2,173,500	-	2,173,500
Public Safety	3,373,245	-	3,373,245
Public Works	2,303,921	-	2,303,921
Community and economic development	503,109	-	503,109
Culture and recreation	269,074	-	269,074
Interest on long term debt	61,490	-	61,490
Sewer Fund	-	817,480	817,480
Water Fund	-	1,330,505	1,330,505
Water Supply Fund	-	1,859,947	1,859,947
<b>Total Expenses</b>	<u>8,684,339</u>	<u>4,007,932</u>	<u>12,692,271</u>
Increase in net assets before transfers	(1,056,265)	749,720	(306,545)
Transfers	25,399	(25,399)	-
Increase in net assets	(1,030,866)	724,321	(306,545)
Net assets – January 1, 2003	10,332,031	10,684,087	21,016,118
<b>Net Assets December 31, 2003</b>	<u><u>\$ 9,301,165</u></u>	<u><u>\$ 11,408,408</u></u>	<u><u>\$ 20,709,573</u></u>

City of Muskegon Heights  
MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED  
December 31, 2003

**Financial analysis of the Government's Funds**

As stated earlier in this discussion and analysis, the City of Muskegon Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Muskegon Heights governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2003 fiscal year, the City of Muskegon Heights governmental funds reported a combined unreserved negative fund balance, also known as a fund deficit, of \$1,216,275. This number represents the unreserved fund deficit, comprised of a deficit of \$1,032,958 in the General Fund and \$183,317 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders (\$96,445), 2) pay debt service and capital purchase (\$42,743), and 3) reserves for perpetual care (\$492,105). When the fund balance has been adjusted to account for these reserves, the result is a final deficit of \$587,312, which consists of a deficit of \$938,843 in the General Fund offset by a fund balance of \$351,531 in other governmental funds.

To further understand the composition of this deficit, it is important to understand that \$628,963 of the deficit is reserved for inventories, prepaid items, debt service capital projects and other uses.

The General Fund is the chief operating fund of the City of Muskegon Heights. At the end of the 2003, the unreserved General Fund deficit was \$1,032,958 and the total General Fund deficit was \$938,843. Each year since the 2000 fiscal year, the City has had a deficit in its General Fund. The City has set forth a plan to eliminate this deficit by 2006, however in the meantime, the continuation of this deficit represents the City's lack of current revenue to fund current expenses.

The other governmental funds column consists of various funds. The Major Street Fund is the largest fund in that schedule and ended the year with a current year operating deficit of \$74,711, which brought the end of year fund deficit to \$365,761. The current year operating deficit was primarily caused by the final payments of approximately \$200,000 to complete a large road construction project.

**Proprietary funds.** The City of Muskegon Heights proprietary funds provide the same type of information found in the governmental financial statements, but in more detail. Unrestricted net assets of the Sewer Fund decreased by \$30,541, the Water Fund decreased by \$173,632 and the Water Supply Fund increased by \$928,494. The result was an overall net increase in the proprietary funds of \$724,321. The Water Supply Fund had unusually high nonoperating expenses of \$479,896 and capital contributions totaling \$522,393. These revenues and corresponding expenditures are related to the water filtration plant expansion and improvements which began in 2000.

City of Muskegon Heights  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED**  
December 31, 2003

**General Fund Budget**

During the current fiscal year, the City made several amendments to its original budget. The most significant of those is listed below:

- Assessor expenditures were reduced during the year and reallocated to other areas of the budget.
- City attorney was increased by \$35,000 based upon higher than anticipated legal fees associated with normal legal requirements of the City.
- Other general government expenses were increased due to a larger than expected increase in health insurance costs.
- Police and Fire was increased due actual costs of overtime exceeding the amount in the original budget.
- Inspections expenditures were reduced to during the year and the budget amounts reallocated to other areas.
- Various other adjustments were made during the year related to normal fluctuations in actual costs incurred.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Taxes (property and income) had actual receipts of 9% less than budgeted.
- Miscellaneous revenues were \$326,968 less than budgeted due to the recategorization of a loan from the Sewer Fund from a transfer to an advance.
- Debt service principal and interest payments were inadvertently omitted from the original and final budgets.
- Transfers were inadvertently omitted from the original and final budget.

**Capital Assets Administration**

**Capital Assets.** The City of Muskegon Heights investment in capital assets for its governmental and business-type activities as of December 31, 2003 totaled \$34,173,621 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment, plants, and vehicles.

Major capital asset events during the current fiscal year included the following:

- \$26,000 in land was added, and \$21,000 in land was sold. These were tax-reverted buildings and land
- \$205,745 in new infrastructure improvements were added to the City, related to the completion of various street improvement projects
- Construction in Progress for business-type activities was reduced by \$17,699,272. This was offset by an increase in plant and infrastructure totaling \$19,394,523, due to the progress and completion of the majority of the water filtration plant expansion and improvements project.

City of Muskegon Heights  
MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED  
December 31, 2003

**CITY OF MUSKEGON HEIGHTS CAPITAL ASSETS**  
( Net of Accumulated Depreciation)

	Governmental Activities 2003	Business-type Activities 2003	Total
Land	\$ 247,908	\$ 40,012	\$ 287,920
Buildings and Improvements	677,435	-	677,435
Infrastructure	8,545,277	-	8,545,277
Plants and Infrastructure	-	22,978,250	22,978,250
Furniture and equipment	513,052	-	513,052
Machinery and equipment	-	51,105	51,105
Vehicles	1,120,582	-	1,120,582
Total	<u>\$ 11,104,254</u>	<u>\$ 23,069,367</u>	<u>\$ 34,173,621</u>

Additional information on the City's capital assets can be found in Note 4 of the "Notes to the Financial Statements" of this report.

**Long-term debt.** At the end of the 2003 fiscal year, the City of Muskegon Heights had total outstanding debt of \$19,610,159 consisting of general obligations bonds, revenue bonds, capital leases, installment purchase agreements, a note payable and accumulated compensated absences. The general obligation debt of \$685,000 in governmental funds and \$720,000 in the component unit, Muskegon Heights Downtown Development Authority, are backed by the full-faith and credit of the City. Approximately \$18,216,799 or (89%) of the City's outstanding debt represented in table below is recorded as revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water filtration and sewer services in the enterprise funds.

**CITY OF MUSKEGON HEIGHTS OUTSTANDING DEBT**

	Governmental Activities	Business-type Activities	Downtown Development Authority	Total
General Obligation Bonds	\$ 685,000	\$ -	\$ 720,000	\$ 1,405,000
Capital Leases	98,306	-	-	98,306
Installment Purchase Agreements	192,399	-	-	192,399
Note Payable	-	-	176,522	176,522
Accumulated Compensated Absences	426,305	-	-	426,305
Revenue Bonds	-	18,216,799	-	18,216,799
Total	<u>\$ 1,402,010</u>	<u>\$ 18,216,799</u>	<u>\$ 896,522</u>	<u>\$ 20,515,331</u>

City of Muskegon Heights  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED**  
December 31, 2003

The City's total debt decreased by \$374,210 during the fiscal year. This reduction was due to normal debt payoffs as provided for in the fiscal year 2003 Budget, offset by additional borrowings.

Additional information on the City of Muskegon Heights' long-term debt can be found in Note H of the notes to the financial statements, beginning on page 27.

### **General Economic Overview**

The City of Muskegon Heights has set fiscal accountability and financial stability as its number one priority. This is also its greatest challenge.

The City's General Fund is comprised of three major revenue sources, state revenue sharing, income tax revenue and property tax revenue. Those three sources comprised over 84% of the general fund revenue sources. In fiscal 2004, both state revenue sharing and income tax revenues are expected to continue to decline. Property tax revenues will remain flat at best.

The City has undertaken a number of measures to offset the fund deficits and declining revenues among them are reducing expenditures, layoffs, changes in health care plans, early retirements and employment freezes. The result of some of these actions may be reflected in they 2004 final expenditures, however, it should be noted that in some cases the actions have effectively slowed the rate of increase in expenditures and not reduced them. During the 2004 and 2005, fiscal years the City will be faced with making fundamental decisions about the services it will provide and how those services will be delivered.

City Council and staff remain optimistic that the City's economic stability will be further enhanced by several projects in various stages of development among them are the former Bennett Pump property (industrial), Centennial Plaza project (commercial), the former wastewater treatment plant (residential) and the Strand Building (commercial).

The City's business-type activities have not experienced the same severe revenue shortfalls as the funds comprising governmental activities. However, during the budget process, the city council recognized the need to further stabilize the resources in these funds. As a result, for the fiscal year 2004 the City Council approved a rate increase in the Sewer Fund of 5.3% and an increase of 26.6% in the Water Fund.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Muskegon Heights' finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Muskegon Heights, Finance Department, 2724 Peck Street, Muskegon Heights, Michigan 49444, (231) 733-8870.

# BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

---

## INDEPENDENT AUDITORS' REPORT

July 28, 2004

City Council  
City of Muskegon Heights  
Muskegon Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights as of and for the year ended December 31, 2003, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Muskegon Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated July 28, 2004, on our consideration of the City of Muskegon Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note A, the City of Muskegon Heights has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of December 31, 2003.

BRICKLEY DeLONG

City Council  
June 28, 2004  
Page 2

The managements' discussion and analysis and budgetary comparison information on pages i through ix and 35 through 38, is not a required part of the basic financial statement but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

*Brickley DeLong, PLLC*

City of Muskegon Heights  
STATEMENT OF NET ASSETS  
December 31, 2003

ASSETS

	Governmental activities	Business-type activities	Total	Component Unit Downtown Development Authority
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 599,031	\$ 2,511,930	\$ 3,110,961	\$ 165,447
Receivables	450,679	547,629	998,308	-
Due from component unit	12,181	-	12,181	-
Due from primary government	-	-	-	74,460
Internal balances	(1,192,370)	210,801	(981,569)	-
Due from other governmental units	894,999	-	894,999	-
Inventories	263,809	21,878	285,687	-
Prepaid items	86,448	-	86,448	-
Total current assets	1,114,777	3,292,238	4,407,015	239,907
<b>RESTRICTED ASSETS</b>	-	3,584,694	3,584,694	-
<b>NONCURRENT ASSETS</b>				
Capital assets, net	11,104,254	23,069,367	34,173,621	928,359
Bond issue costs, net	-	600,451	600,451	-
Special assessments	9,106	-	9,106	-
Notes receivable	-	-	-	42,500
Total noncurrent assets	11,113,360	23,669,818	34,783,178	970,859
Total assets	12,228,137	30,546,750	42,774,887	1,210,766
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued expenses	562,133	886,723	1,448,856	21,713
Due to component unit	74,460	-	74,460	-
Due to primary Government	-	-	-	12,181
Due to other governmental units	46,101	-	46,101	-
Deferred revenue	829,254	34,820	864,074	8,040
Bonds, capital leases and contracts, due within one year	176,000	403,000	579,000	88,000
Accrued interest, due within one year	13,014	-	13,014	9,887
Total current liabilities	1,700,962	1,324,543	3,025,505	139,821
<b>NONCURRENT LIABILITIES</b>				
Bonds, capital leases and contracts, less amounts due within one year	799,705	17,813,799	18,613,504	808,522
Compensated absences, less amounts due within one year	426,305	-	426,305	-
Total noncurrent liabilities	1,226,010	17,813,799	19,039,809	808,522
Total liabilities	2,926,972	19,138,342	22,065,314	948,343
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt	10,128,549	6,350,924	16,479,473	31,837
Restricted for:				
Capital projects	-	400,558	400,558	-
Debt service	-	1,431,356	1,431,356	-
Perpetual care	492,105	-	492,105	-
Unrestricted	(1,319,489)	3,225,570	1,906,081	230,586
Total net assets (deficit)	\$ 9,301,165	\$ 11,408,408	\$ 20,709,573	\$ 262,423

The accompanying notes are an integral part of this statement.



City of Muskegon Heights  
STATEMENT OF ACTIVITIES  
For the year ended December 31, 2003

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets						Component Unit
	Program Revenue			Primary Government		Downtown Development Authority	
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Primary government							
Governmental activities							
General government	\$ 2,173,500	\$ 292,439	\$ 17,855	\$ -	\$ (1,863,206)	\$ -	\$ (1,863,206)
Public safety	3,373,245	212,018	93,663	-	(3,067,564)	-	(3,067,564)
Public works	2,303,921	253,872	-	-	(2,050,049)	-	(2,050,049)
Community and economic development	503,109	9,114	477,415	-	(16,580)	-	(16,580)
Culture and recreation	269,074	18,562	25,000	-	(225,512)	-	(225,512)
Interest on long-term debt	61,490	-	-	-	(61,490)	-	(61,490)
Total governmental activities	8,684,339	786,005	613,933	-	(7,284,401)	-	(7,284,401)
Business-type activities:							
Sewer Fund	817,480	771,282	-	-	-	\$ (46,198)	(46,198)
Water Fund	1,330,505	1,150,419	-	-	-	(180,086)	(180,086)
Water Supply Fund	1,859,947	2,283,518	-	522,393	-	945,964	945,964
Total business-type activities	4,007,932	4,205,219	-	522,393	-	719,680	719,680
Total primary government	\$ 12,692,271	\$ 4,991,224	\$ 613,933	\$ 522,393	(7,284,401)	719,680	(6,564,721)
Component unit							\$ (287,679)
Downtown Development Authority	\$ 316,294	\$ 22,265	\$ 6,350	\$ -			
General revenues:							
Property taxes					1,894,774	-	1,894,774
Income taxes					926,666	-	926,666
Franchise fees					94,467	-	94,467
Grants and contributions not restricted to specific programs					2,816,307	-	2,816,307
Unrestricted investment earnings					23,320	30,040	53,360
Miscellaneous					458,989	-	458,989
Gain (loss) on sale of asset					13,613	-	13,613
Transfers					25,399	(25,399)	-
Total general revenues, special items, and transfers					6,253,535	4,641	6,258,176
Change in net assets					(1,030,866)	724,321	(306,545)
Net assets at January 1, 2003					10,332,031	10,684,087	21,016,118
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,165	\$ 11,408,408	\$ 20,709,573
Net assets at December 31, 2003					\$ 9,301,		

The accompanying notes are an integral part of this statement.

City of Muskegon Heights  
BALANCE SHEET  
Governmental Funds  
December 31, 2003

ASSETS			
	General Fund	Other governmental funds	Total governmental funds
Cash and investments	\$ 10,039	\$ 588,992	\$ 599,031
Receivables	-	9,106	9,106
Special assessments	299,506	66,711	366,217
Other	731,991	168,246	900,237
Due from other funds	12,181	-	12,181
Due from component unit	361,632	533,367	894,999
Due from other governmental units	7,667	-	7,667
Inventories	86,448	-	86,448
Prepaid items	\$ 1,509,464	\$ 1,366,422	\$ 2,875,886
Total assets			
LIABILITIES AND FUND BALANCES (DEFICITS)			
Liabilities			
Accounts payable	\$ 408,624	\$ 153,509	\$ 562,133
Customer deposits	-	1,675	1,675
Due to other funds	957,124	845,483	1,802,607
Due to component unit	69,542	4,918	74,460
Due to other governmental units	46,101	-	46,101
Deferred revenue	676,916	9,306	686,222
Advances from other funds	290,000	-	290,000
Total liabilities	2,448,307	1,014,891	3,463,198
Fund balances (deficits)			
Reserved for:			
Inventories	7,667	-	7,667
Prepaid items	86,448	-	86,448
Debt service	-	4,321	4,321
Capital projects	-	38,422	38,422
Perpetual care	-	492,105	492,105
Unreserved	(1,032,958)	(183,317)	(1,216,275)
Total fund balances (deficits)	(938,843)	351,531	(587,312)
Total liabilities and fund balances (deficits)	\$ 1,509,464	\$ 1,366,422	\$ 2,875,886

The accompanying notes are an integral part of this statement.

City of Muskegon Heights  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS**  
 December 31, 2003

Total fund balance (deficit)—governmental funds	\$ (587,312)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Inventory of houses recorded on the Statement of Net Assets and are not reported in the governmental funds.	296,893
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.	
Cost of capital assets	\$ 22,755,706
Accumulated depreciation	<u>(11,651,451)</u>
	11,104,255
Other receivables in governmental activities not reported in the governmental funds.	199,246
Deferred revenue recorded on Statement of Net Assets and are not reported in the governmental funds.	(296,893)
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.	
Long-term liabilities	(975,705)
Compensated absences	<u>(1,402,010)</u>
	(13,014)
Accrued interest in governmental activities is not reported in the governmental funds.	
	<u>\$ 9,301,165</u>

The accompanying notes are an integral part of this statement.

City of Muskegon Heights  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)**  
 Governmental Funds  
 For the year ended December 31, 2003

	General Fund	Other governmental funds	Total governmental funds
<b>REVENUES</b>			
Taxes	\$ 2,754,254	\$ 52,356	\$ 2,806,610
Licenses and permits	112,291	-	112,291
Intergovernmental revenues			
Federal	114,637	479,820	594,457
State	1,917,295	832,148	2,749,443
Special assessments	-	12,067	12,067
Charges for services	573,775	194,406	768,181
Fines and forfeitures	13,739	-	13,739
Investment earnings	3,420	19,900	23,320
Other	188,512	88,605	277,117
Total revenues	5,677,923	1,679,302	7,357,225
<b>EXPENDITURES</b>			
Current			
General government	1,850,803	211,850	2,062,653
Public safety	3,187,444	-	3,187,444
Public works	694,182	657,216	1,351,398
Community and economic development	20,185	436,668	456,853
Culture and recreation	149,214	106,098	255,312
Debt service			
Principal	54,262	56,355	110,617
Interest and fees	3,008	54,539	57,547
Capital outlay	87,478	284,009	371,487
Total expenditures	6,046,576	1,806,735	7,853,311
Excess of revenues over (under) expenditures	(368,653)	(127,433)	(496,086)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from long-term debt, net	54,642	-	54,642
Proceeds from sale of fixed assets	22,163	-	22,163
Refunded payroll tax penalties and interest	61,870	-	61,870
Operating transfers in	-	155,768	155,768
Operating transfers out	(47,165)	(83,204)	(130,369)
Total other financing sources (uses)	91,510	72,564	164,074
Net change in fund balance (deficit)	(277,143)	(54,869)	(332,012)
Fund balance (deficit) at January 1, 2003	(661,700)	406,400	(255,300)
Fund balance (deficit) at December 31, 2003	\$ (938,843)	\$ 351,531	\$ (587,312)

The accompanying notes are an integral part of this statement.

City of Muskegon Heights  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES (DEFICITS) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 For the year ended December 31, 2003

Net change in fund balances—total governmental funds:	\$ (332,012)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.	141,224
Net expenditures recorded in the Statement of Activities related to the inventory of houses, but was recorded in the prior year as expenditures in the governmental funds.	(40,751)
Revenues released from deferred revenue and recorded in the Statement of Activities, but was recorded as revenues in the prior year's governmental funds.	40,751
Governmental funds report outlays for capital assets as expenditures whereas in the Statement of Activities; these costs are depreciated over their estimated useful lives.	
Depreciation expense	\$ (1,080,518)
Capital outlay	<u>293,174</u>
Proceeds from bond issuance is an other financing source in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.	(787,344)
Governmental funds report proceeds from the sale of fixed assets as revenue in the governmental funds; these proceeds are netted against the net book value of the asset sold in determining a gain on sale in the Statement of Activities.	(54,642)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	(21,160)
Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	110,617
Increases in the compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	(3,943)
	<u>(83,607)</u>
Change in net assets of governmental activities	<u><u>\$ (1,030,867)</u></u>

The accompanying notes are an integral part of this statement.

City of Muskegon Heights  
STATEMENT OF NET ASSETS  
Enterprise Funds  
December 31, 2003

ASSETS

	Sewer	Water	Water Supply	Total
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 993,970	\$ 525,367	\$ 992,593	\$ 2,511,930
Accounts receivable	224,520	285,771	37,338	547,629
Due from other funds	93,182	-	1,277,611	1,370,793
Inventories	-	12,830	9,048	21,878
Total current assets	1,311,672	823,968	2,316,590	4,452,230
<b>RESTRICTED ASSETS</b>				
<b>NONCURRENT ASSETS</b>				
Advances to other funds	290,000	-	-	290,000
Bond issuance costs, net	3,596	-	596,855	600,451
Capital assets				
Land	2,246	-	37,766	40,012
Buildings and system	-	21,920	89,306	111,226
Plants and infrastructure	3,172,580	1,911,658	24,681,322	29,765,560
Machinery and equipment	259,736	233,050	351,449	844,235
Less accumulated depreciation	(1,931,618)	(1,577,886)	(4,182,162)	(7,691,666)
Net capital assets	1,502,944	588,742	20,977,681	23,069,367
Total noncurrent assets	1,796,540	588,742	21,574,536	23,959,818
Total assets	3,108,212	1,412,710	27,475,820	31,996,742

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>				
Accounts payable	74,879	14,507	588,273	677,659
Accrued expenses	11,473	11,550	186,041	209,064
Due to other funds	1,602	1,122,678	325,712	1,449,992
Deferred revenue	-	34,820	-	34,820
Bonds, capital leases and contracts, due within one year	103,000	-	300,000	403,000
Total current liabilities	190,954	1,183,555	1,400,026	2,774,535
<b>NONCURRENT LIABILITIES</b>				
Bonds, capital leases and contracts, less amounts due within one year	443,799	-	17,370,000	17,813,799
Total liabilities	634,753	1,183,555	18,770,026	20,588,334
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	956,145	588,742	4,806,037	6,350,924
Restricted for:				
Capital projects	-	-	400,558	400,558
Debt service	-	-	1,431,356	1,431,356
Unrestricted (deficit)	1,517,314	(359,587)	2,067,843	3,225,570
Total net assets	\$ 2,473,459	\$ 229,155	\$ 8,705,794	\$ 11,408,408

The accompanying notes are an integral part of this statement.

City of Muskegon Heights  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
 Enterprise Funds

For the year ended December 31, 2003

	Sewer	Water	Water Supply	Total
<b>REVENUES</b>				
Charges for services	\$ 771,282	\$ 1,150,419	\$ 2,283,518	\$ 4,205,219
<b>OPERATING EXPENSES</b>				
Administration	75,304	129,227	75,000	279,531
Operations	605,384	1,145,134	890,146	2,640,664
Depreciation and amortization	66,003	56,144	414,905	537,052
Total operating expenses	746,691	1,330,505	1,380,051	3,457,247
Operating income (loss)	24,591	(180,086)	903,467	747,972
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	15,657	6,454	7,929	30,040
Interest expense	(70,789)	-	(479,896)	(550,685)
Total nonoperating revenue (expenses)	(55,132)	6,454	(471,967)	(520,645)
Income (loss) before contributions and transfers	(30,541)	(173,632)	431,500	227,327
Capital contributions	-	-	522,393	522,393
Transfers out	-	-	(25,399)	(25,399)
Change in net assets	(30,541)	(173,632)	928,494	724,321
Total net assets at January 1, 2003	2,504,000	402,787	7,777,300	10,684,087
Total net assets at December 31, 2003	\$ 2,473,459	\$ 229,155	\$ 8,705,794	\$ 11,408,408

The accompanying notes are an integral part of this statement.

City of Muskegon Heights  
**STATEMENT OF CASH FLOWS**  
Enterprise Funds  
For the year ended December 31, 2003

	Sewer	Water	Water Supply	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 773,438	\$ 1,164,790	\$ 1,547,968	\$ 3,486,196
Receipts from interfund services provided	-	20,646	402,975	423,621
Payments to suppliers	(538,280)	(178,318)	(509,027)	(1,225,625)
Payments to employees	(147,896)	(329,273)	(443,787)	(920,956)
Payments for interfund services used	(75,668)	(477,975)	(75,000)	(628,643)
Net cash provided by operating activities	11,594	199,870	923,129	1,134,593
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating subsidies and transfers to other funds	-	-	(25,399)	(25,399)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	-	-	(1,200,148)	(1,200,148)
Principal and interest paid on capital debt	(176,400)	-	(764,896)	(941,296)
Net cash used for capital and related financing activities	(176,400)	-	(1,965,044)	(2,141,444)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Advances to other funds	(290,000)	-	-	(290,000)
Interest and dividends	15,657	6,454	38,166	60,277
Net cash provided by (used for) investing activities	(274,343)	6,454	38,166	(229,723)
Net increase (decrease) in cash and cash equivalents	(439,149)	206,324	(1,029,148)	(1,261,973)
Cash and investments at January 1, 2003	1,433,118	319,043	5,636,672	7,388,833
Cash and investments at December 31, 2003	\$ 993,969	\$ 525,367	\$ 4,607,524	\$ 6,126,860
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 24,591	\$ (180,086)	\$ 903,467	\$ 747,972
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation expense	66,003	56,144	414,905	537,052
Change in assets and liabilities				
Receivables, net	2,156	34,732	62,356	99,244
Internal activity	(75,668)	319,931	(159,619)	84,644
Inventories	-	496	(4,025)	(3,529)
Prepaid item	-	-	400	400
Accounts and other payables	(1,155)	(3,811)	(243,596)	(248,562)
Accrued expenses	(4,333)	(27,536)	(50,759)	(82,628)
Net cash provided by operating activities	\$ 11,594	\$ 199,870	\$ 923,129	\$ 1,134,593

The accompanying notes are an integral part of this statement.



City of Muskegon Heights  
STATEMENT OF FIDUCIARY NET ASSETS  
December 31, 2003

	Employee Benefit Plan	Private Purpose Trust Fund - Simple	Agency Funds
<b>ASSETS</b>			
Cash and Investments	\$ 779,594	\$ 3,296	\$ 594,340
Due from other funds	-	-	997,552
Due from component unit	-	-	6,991
Total assets	779,594	3,296	1,598,883
<b>LIABILITIES</b>			
Checks issued against future deposits	-	-	417,910
Accounts payable	-	-	129,874
Due to other funds	-	37	15,941
Due to other governments	-	-	1,001,536
Deposits held for others	-	-	33,622
Total liabilities	-	37	1,598,883
<b>NET ASSETS</b>			
Held in trust for benefits and other purposes	\$ 779,594	\$ 3,259	\$ -

The accompanying notes are an integral part of this statement.

City of Muskegon Heights  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
For the year ended December 31, 2003

<b>ADDITIONS</b>		
Employee contributions	Employee Benefit Plan	Private Purpose Trust Fund - Simple
Investment gain		
	\$ 42,593	\$ -
	127,917	-
	<u>170,510</u>	<u>-</u>
<b>DEDUCTIONS</b>		
Benefits	193,096	-
Fees	-	37
	<u>193,096</u>	<u>37</u>
Change in net assets	(22,586)	(37)
Net assets at January 1, 2003	<u>802,180</u>	<u>3,296</u>
Net assets at December 31, 2003	<u>\$ 779,594</u>	<u>\$ 3,259</u>

The accompanying notes are an integral part of this statement.

City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Muskegon Heights (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Effective January 1, 2003, the City and Downtown Development Authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The Downtown Development Authorities opening fund balance was also restated for the correction of an error related to property taxes revenues. As a result of the correction of this error the Downtown Development Authorities fund balance was increased by \$33,239.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 and the correction of an error are as follows:

	<u>City</u>	<u>Downtown Development Authority</u>
Fund balances at January 1, 2003—governmental funds	\$ (255,300)	\$ 149,967
Property tax revenue correction	<u>-</u>	<u>33,239</u>
Fund balances at January 1, 2003, restated—government funds	(255,300)	183,206
Receivables	58,022	10,500
Net capital assets	11,912,758	1,075,904
Accrued liabilities	(9,071)	(13,411)
Long-term liabilities	(1,031,680)	(1,018,445)
Vacation and sick pay accruals	<u>(342,698)</u>	<u>-</u>
Restated net assets at January 1, 2003	\$ <u>10,332,031</u>	\$ <u>237,754</u>

City of Muskegon Heights  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2003

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**1. Report Entity**

The City of Muskegon Heights' (City) is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

***Discretely presented component unit***

The discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the primary government. The discretely presented component unit has a December 31, 2003 fiscal year end. The discretely presented component unit is the Downtown Development Authority (DDA).

The DDA board is appointed by the City Council, but the Authority operates as a separate entity. The DDA board can authorize and issue debt independent from the City. The DDA is presented as a governmental fund type.

**2. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, income taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following three major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

The Water Fund operates the City's water distribution.

The Water Supply Fund operates the City's water treatment plant. The plant provides water to the City and two adjacent municipalities.

Additionally, the City reports the following fund types:

The Pension Trust Fund accounts for the activities of the City's employees retirement plan, which accumulates resources for pension benefit payments.

The Private Purpose Trust Fund is a fund comprised of employee contributions for the purpose of purchasing cards and flowers as sympathy for illness and death.

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**4. Assets, Liabilities and Net Assets or Equity**

**a. Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the City's investment pool. all investments are stated at cost or amortized cost.

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**b. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31.

Although the Local Governmental Unit 2003 ad valorem tax is levied and collectible on December 1, 2003, it is the Local Governmental Unit's policy to recognize one half of the available revenue from the current tax levy in the current year since the millage was approved to finance the City from July 1 through the following June 30. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2003 state taxable value for real/personal property of the City totaled approximately \$117,800,000 of which approximately \$10,820,000 was captured by the DDA. The ad valorem taxes levied consisted of 10 mills for operation, 3 mills for sanitation, 3 mills for police, and .35 mills for street lighting for the City's General Fund operating purposes and .5 mills for the Recreation Fund activities. These amounts are recognized in the respective General Fund, Recreation Fund and DDA.

**c. Inventories and Prepaid Items**

All inventories are valued at cost using the first-in/first-out(FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**d. Restricted Assets**

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**e. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water Supply Fund during the year ended December 31, 2003 was \$978,623. Of this amount, \$498,724 was included as part of the cost of capital assets under construction in connection with Water Supply treatment facilities.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and access rights	25-50
Public domain infrastructure	20-30
System infrastructure and improvements	10-100
Vehicles and equipment	5-25
Office equipment	5

**f. Compensated Absences**

City employees are granted vacation and sick leave in varying amounts based on length of service. Accumulated vacation leave must be taken no later than the year after it is earned. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 120 days for employees. Unused accumulated sick leave is paid to employees who resign or retire, limited to 50 percent of days accumulated. All vacation and sick pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**g. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.



City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**g. Long-Term Obligations—Continued**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**h. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first Monday of November, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second Monday in December, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**2. Excess of Expenditures Over Appropriations**

For the year ended December 31, 2003, expenditures exceeded appropriations for debt service in the General Fund by \$57,270. Expenditures also exceeded appropriations for the winter maintenance departments (the legal level of budgetary control) of the Major Streets Fund and Local Streets Fund by \$5,226 and \$13,365, respectively. These overexpenditures were funded by a loan from the Sewer Fund in the case of the General Fund and by available fund balance in the case of the special revenue fund.

**3. Fund Deficit**

As of December 31, 2003, the City's General Fund, Major Street Fund and Cemetery Fund had undesignated fund deficits of \$1,032,958, \$365,761, and \$9,782, respectively. The deficits will be eliminated through future operations, which may include new revenue sources, reduction of operating expenses and interfund transfers.

**NOTE C—DEPOSITS AND INVESTMENTS**

**1. Deposits**

The City's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of December 31, 2003, the City's and component units' carrying amount of deposits was \$884,871 and the bank balance was \$1,088,903. Of the bank balance, \$200,923 was covered by federal depository insurance.

**2. Investments**

As of December 31, 2003, the City's investments represented holdings in investment pools, mutual funds, corporate bonds, mortgage-backed securities, repurchase agreements and U.S. Treasury securities. During the year ended December 31, 2003, the City's investments were only in this type of investment. As of December 31, 2003, the Downtown Development Authority investments represented holdings in U.S. Treasury securities and corporate bonds. During the year ended December 31, 2003, the Downtown Development Authority's investments were only in this type of investment.

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**2. Investments—Continued**

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or the securities held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. The state-approved investment pools are not categorized as they are synonymous with mutual funds. As of December 31, 2003, the City's fair value in those pools and mutual funds were \$5,842,529.

	Category			Fair value amount
	<u>1</u>	<u>2</u>	<u>3</u>	
Corporate bonds	\$ -	\$ -	\$ 50,000	\$ 50,000
Certificates of Deposit	-	650,000	-	650,000
Mortgage backed securities	-	-	<u>1,288,228</u>	<u>1,288,228</u>
	<u>\$ -</u>	<u>\$ 650,000</u>	<u>\$ 1,338,228</u>	<u>\$ 1,988,228</u>

The composition of pension trust fund investments at fair value is included in the previous paragraph and shown in the following table:

Managed Domestic stock funds	\$ 464,240
Managed Bonds funds	<u>315,354</u>
	<u>\$ 779,594</u>

**3. Restricted Assets**

Restrictions are placed on assets by bond ordinance and City Council action. At December 31, 2003, restricted cash and investments in the Enterprise funds are restricted as follows:

Water Supply Fund	
Rate Stabilization	\$ 284,693
Repairs and Replacement	400,558
Bond Reserve Fund	1,414,524
Construction	<u>1,484,919</u>
	<u>\$ 3,584,694</u>

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2003 was as follows:

	Balance January 1, <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance December 31, <u>2003</u>
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 243,068	\$ 26,000	\$ 21,160	\$ 247,908
<b>Capital assets, being depreciated:</b>				
Buildings and other improvements	1,235,756	-	-	1,235,756
Infrastructure	17,993,189	205,745	-	18,198,934
Furniture and equipment	863,494	61,429	-	924,923
Vehicles	<u>2,148,184</u>	<u>-</u>	<u>-</u>	<u>2,148,184</u>
Total capital assets being depreciated	<u>22,240,623</u>	<u>267,174</u>	<u>-</u>	<u>22,507,797</u>
<b>Less accumulated depreciation for:</b>				
Buildings and other improvements	531,018	27,303	-	558,321
Infrastructure	8,760,461	893,196	-	9,653,657
Furniture and equipment	367,013	44,858	-	411,871
Vehicles	<u>912,441</u>	<u>115,161</u>	<u>-</u>	<u>1,027,602</u>
Total accumulated depreciation	<u>10,570,933</u>	<u>1,080,518</u>	<u>-</u>	<u>11,651,451</u>
Total capital assets, being depreciated, net	<u>11,669,690</u>	<u>(813,344)</u>	<u>-</u>	<u>10,856,346</u>
Capital assets, net	<u>\$11,912,758</u>	<u>\$ (787,344)</u>	<u>\$ 21,160</u>	<u>\$11,104,254</u>
<b>Business-type activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 40,012	\$ -	\$ -	\$ 40,012
<b>Capital assets, being depreciated:</b>				
Buildings and system	111,226	-	-	111,226
Plants and infrastructure	10,371,037	19,394,523	-	29,765,560
Machinery and equipment	816,946	27,289	-	844,235
Construction in progress	<u>17,699,272</u>	<u>-</u>	<u>17,699,272</u>	<u>-</u>
Total capital assets, being depreciated	<u>28,998,481</u>	<u>19,421,812</u>	<u>17,699,272</u>	<u>30,721,021</u>

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE D—CAPITAL ASSETS—Continued**

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
<b>Business-type activities:—Continued</b>				
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	\$ 111,226	\$ -	\$ -	\$ 111,226
Plants and infrastructure	6,332,109	455,201	-	6,787,310
Machinery and equipment	759,027	34,103	-	793,130
Total accumulated depreciated	<u>7,202,362</u>	<u>489,304</u>	<u>-</u>	<u>7,691,666</u>
Total capital assets, being depreciated, net	<u>21,796,119</u>	<u>18,932,508</u>	<u>17,699,272</u>	<u>23,029,355</u>
Capital assets, net	<u>\$21,836,131</u>	<u>\$18,932,508</u>	<u>\$17,699,272</u>	<u>\$23,069,367</u>

Depreciation expense was charged to functions as follows:

**Government activities:**

General government	\$ 28,233
Public safety	82,825
Public works	948,408
Culture and recreation	<u>21,052</u>

Total depreciation expense - governmental activities \$ 1,080,518

**Business-type activities:**

Sewer	\$ 66,003
Water	56,144
Water Supply	<u>367,157</u>

Total depreciation expense - business-type activities \$ 489,304

**Construction Commitments**

Since December 31, 2003, the City has entered into various agreements for construction projects.

The Water Supply Fund has entered into various contracts and awarded bids for the expansion of the City's water filtration plant. The total construction cost of the project is approximately \$13,309,000. The City has incurred approximately \$13,301,000 in construction cost at December 31, 2003 related to the above contracts.

**Discretely presented component units**

Activity for the City for the year ended December 31, 2003 was as follows:

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
Capital assets, not being depreciated:				
Land	\$ 300,935	\$ -	\$ 6,300	\$ 294,635
Capital assets, being depreciated:				
Buildings	881,715	-	127,880	753,835
Less accumulated depreciation for:				
Buildings	<u>106,746</u>	<u>24,606</u>	<u>11,241</u>	<u>120,111</u>
Total capital assets, being depreciated, net	<u>774,969</u>	<u>24,606</u>	<u>116,639</u>	<u>633,724</u>
City capital assets, net	<u>\$ 1,075,904</u>	<u>\$ 24,606</u>	<u>\$ 122,939</u>	<u>\$ 928,359</u>

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE E—BOND ISSUANCE COSTS**

	Balance January 1, 2003	<u>Additions</u>	<u>Deletions</u>	Balance December 31, 2003
Water Supply				
Issuance	\$ 383,175	\$ -	\$ -	\$ 383,175
Discount	333,050	-	-	333,050
Sewer				
Discount	<u>9,350</u>	<u>-</u>	<u>-</u>	<u>9,350</u>
Total Bond Issuance Cost	725,575	-	-	725,575
<b>Less Amortization</b>				
Water Supply Fund over 15 years	71,622	47,748	-	119,370
Sewer Fund over 6.5 years	<u>4,316</u>	<u>1,438</u>	<u>-</u>	<u>5,754</u>
	<u>75,938</u>	<u>49,186</u>	<u>-</u>	<u>125,124</u>
Total Bond Issuance cost, Net of Amortization	<u>\$ 649,637</u>	<u>\$ (49,186)</u>	<u>\$ -</u>	<u>\$ 600,451</u>

**Amortization**

Amortization expense has been charged to the following functions:

Water Supply	\$ 47,748
Sewer	<u>1,438</u>
	<u>\$ 49,186</u>

**NOTE F—DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	City	Downtown Development Authority
	<u>Unavailable</u> <u>Unearned</u>	<u>Unavailable</u> <u>Unearned</u>
Property taxes	\$ -    \$ 562,132	\$ -    \$ 8,040
Special assessments not yet due (debt service fund)	9,306    -	-    -
Receivables	<u>114,784</u> -	<u>42,500</u> -
Total deferred/unearned revenue for governmental funds	<u>\$ 124,090</u> <u>\$ 562,132</u>	<u>\$ 42,500</u> <u>\$ 8,040</u>

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE G—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
<b><i>Due from/to other funds</i></b>		
General Fund	\$ 731,991	\$ 957,124
Other governmental funds		
Major Street	-	499,502
Local Street	50,888	116,325
Community Development Block Grant	-	78,894
Cemetery	37,676	54,208
Michigan State Housing Development Authority	16,082	23,637
Recreation	48,000	21,091
Seaway Industrial Park	2,458	4,858
Debt Service Fund	3,057	-
Cemetery Perpetual Care	85	36,968
Proprietary Funds		
Sewer	93,182	1,602
Water	-	1,122,678
Water Supply	1,277,611	325,712
Trust and Agency Funds		
Tax Collection	485,000	2,067
Payroll Imprest	498,673	-
John Hendrick Flower Fund	-	37
	<u>\$ 3,244,703</u>	<u>\$ 3,244,703</u>
<b><i>Advances to/from other funds</i></b>		
General Fund	\$ -	\$ 290,000
Proprietary Fund		
Sewer	290,000	-
	<u>\$ 290,000</u>	<u>\$ 290,000</u>
<b><i>Due from/to component units</i></b>		
Component units		
General	\$ 1,539	\$ -
Capital Projects fund	-	1,539
	<u>\$ 1,539</u>	<u>\$ 1,539</u>
<b><i>Due from/to primary government and component unit</i></b>		
General Fund	\$ 12,181	\$ 69,542
Payroll imprest	427	-
Community Development Block Grant	-	4,036
Cemetery Perpetual Care	-	882
Tax Collection Fund	6,564	-
General DDA	70,424	19,172
Capital Projects DDA	4,036	-
	<u>\$ 93,632</u>	<u>\$ 93,632</u>

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE G—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS—Continued**

<u>Fund</u>	<u>Transfers in</u>	<u>Transfers out</u>
<i>Operating transfers—in/out</i>		
General Fund	\$ -	\$ 47,165
Special Revenue funds		
Local Streets	-	20,641
Community Development Block Grant	-	25,000
U.P.P.A.R. Grant	6,373	-
Cemetery	37,563	-
Recreation	50,399	-
Seaway Industrial Park	2,458	-
Debt Service Fund	58,975	-
Permanent Fund		
Cemetery Perpetual Care	-	37,563
Enterprise Fund		
Water Supply	-	25,399
	<u>\$ 155,768</u>	<u>\$ 155,768</u>

**NOTE H—LEASES**

The City leases equipment under noncancelable operating leases. Total costs for such leases were \$11,451 for the year ended December 31, 2003. The future minimum lease payments for these leases are as follows:

<u>Year ending December 31</u>	<u>Amount</u>
2004	\$ 5,150
2005	<u>625</u>
	<u>\$ 5,775</u>

**NOTE I—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the City for the year ended December 31, 2003.

	<u>Balance January 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2003</u>	<u>Due within one year</u>
<b>Governmental activities:</b>					
General obligation bonds	\$ 700,000	\$ -	\$ 15,000	\$ 685,000	\$ 20,000
Capital leases	148,092	-	49,786	98,306	30,000
Installment purchase agreements	183,588	54,642	45,831	192,399	126,000
Compensated absences	<u>343,840</u>	<u>82,465</u>	<u>-</u>	<u>426,305</u>	<u>-</u>
Governmental activity					
Long-term liabilities	<u>\$ 1,375,520</u>	<u>\$ 137,107</u>	<u>\$ 110,617</u>	<u>\$ 1,402,010</u>	<u>\$ 176,000</u>



City of Muskegon Heights  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2003

**NOTE I—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003	Due within one year
<b>Business-type activities:</b>					
Revenue bonds	\$18,608,849	\$ -	\$ 392,050	\$18,216,799	\$ 403,000
<b>Downtown Development Authority:</b>					
General obligation bonds	\$ 775,000	\$ -	\$ 55,000	\$ 720,000	\$ 60,000
Installment purchase agreements	243,445	-	66,923	176,522	28,000
Downtown Development Authority long-term liabilities	\$ 1,018,445	\$ -	\$ 121,923	\$ 896,522	\$ 88,000

	Balance December 31, 2003
<b>Governmental activities</b>	
<b>Revenue bonds:</b>	
Michigan Municipal Bond Authority, Series 1997C, Advance Refunding of Series 1991C, Group B of 1991 bonds, due in varying annual installments of \$20,000 to \$75,000 through November 2020, plus interest at 7.2%	\$ 685,000
5.5% Capital lease payable in quarterly installments of \$5,705 including interest; final payment due July 2004	16,661
6.94% Capital lease payable in quarterly installments of \$4,673 including interest; final payment due March 2009	81,645
4.9% Equipment note payable in total annual installments of approximately \$57,752 plus interest; final payments due through December 2005	144,379
4.25% Equipment note payable in current monthly installments of \$1,014 including interest; final payment due April 2008	48,020
	975,705
Compensated absences	426,305
	<u>\$ 1,402,010</u>

City of Muskegon Heights  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2003

**NOTE I—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

	Balance December 31, <u>2003</u>
<b>Business-type activities:</b>	
<b>Revenue bonds:</b>	
Water Supply System revenue bonds of 2000 due in annual installments of \$285,000 to \$1,215,000 through November 2030; plus interest at rates varying from 5.25% to 6.0%	\$17,670,000
Muskegon County wastewater management system no. 1 bond refunding contractual obligation of 1996 due in annual installments of \$89,470 to \$91,496 through July 2005; plus interest at rates varying from 5.1% to 5.7%	180,827
Muskegon County wastewater management system no. 1 refunding bond of 2002 due in annual installments of \$10,860 to \$115,659 through July 2008; plus interest rates varying from 1.8% to 5%	<u>365,972</u>
	<u>\$18,216,799</u>
<b>Downtown Development Authority:</b>	
<b>General obligation bonds:</b>	
\$525,000 Downtown Development limited tax obligation bond of 1991; final payment made May 2004; interest at 7%	\$ 60,000
\$995,000 Downtown Development limited tax obligation bonds of 1994 due in annual installments of \$50,000 to \$125,000 starting May 2006 through May 2012; plus interest at rates varying from 7.0% to 7.25%	<u>660,000</u> 720,000
<b>Installment purchase agreements:</b>	
Mortgage note payable to bank due in monthly installments of \$2,668 through January 2011; including interest at 7.98%	<u>176,522</u>
	<u>\$ 896,522</u>

The general obligation bonds are backed by the full faith and credit of the City.

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE I—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

**Downtown Development Authority:—Continued**

The 1996 and 2002 County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 10 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

The 1996 and 2002 County of Muskegon wastewater contracts payable and the 2000 Water Supply revenue bonds are payable solely from the net revenues of the sewer and water supply directing the City to create funds restricted for use in the construction project and in debt service. Assets so restricted are detailed in note C3.

The City was in compliance in all material respects with all the revenue bond ordinances at December 31, 2003.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2003 follows:

Year ending December 31	Governmental Activities		Business-type Activities		Downtown Development Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 176,000	\$ 60,646	\$ 403,000	\$ 1,009,810	\$ 88,000	\$ 64,080
2005	73,780	48,441	420,090	989,158	18,893	60,304
2006	46,568	45,078	450,659	964,237	70,934	56,717
2007	53,154	42,330	469,573	940,895	97,947	50,290
2008	46,623	39,337	483,477	919,291	110,155	42,404
2009-2013	174,580	165,500	2,170,000	4,255,863	510,593	75,926
2014-2018	260,000	86,842	2,830,000	3,595,691	-	-
2019-2023	145,000	6,288	3,730,000	2,694,377	-	-
2024-2028	-	-	4,895,000	1,521,281	-	-
2029-2030	-	-	2,365,000	201,375	-	-
Total	\$ 975,705	\$ 494,462	\$18,216,799	\$17,091,978	\$ 896,522	\$ 349,721

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE J—OTHER INFORMATION**

**1. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

**2. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

**3. Post-Retirement Health Care**

The City has agreed to provide post-retirement health care to certain full-time employees after they reach age 50 or 55, depending on which contract they are employed under, and have 25 years of service. The City will pay 100 percent of the employee's premium and a portion of the dependent's premium, if any.

As of year end, there were 81 retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended December 31, 2003, the City's post-retirement health care cost under the Plan was approximate \$389,000.

**NOTE K—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**1. Pension Plan**

*Plan Description.* The City of Muskegon Heights is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of Muskegon Heights. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Muskegon Heights  
2724 Peck Street  
Muskegon Heights, MI 49444

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE K—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**1. Pension Plan—Continued**

*Funding Policy.* City employees are required to contribute 3 to 6 percent to the Plan depending on employee contract. The City is required to contribute at an actuarially-determined rate depending upon position from 0.0 to 10.07 percent of covered wages.

*Annual Pension Cost.* For the year ended December 31, 2003, the City's annual pension cost was approximately \$44,000 which the City contributed. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

**Three-Year Trend Information**

<u>Year ending</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percent of APC contributed</u>	<u>Net Pension Obligation</u>
6/30/01	\$145,000	100%	\$ -
6/30/02	20,000	100	-
6/30/03	39,000	100	-

**REQUIRED SUPPLEMENTARY INFORMATION**

*Schedule of Funding Progress*

*(Dollars amounts in thousands)*

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/01	\$27,226	\$25,709	\$(1,517)	106%	\$4,158	(36.5)%
12/31/02	26,469	26,353	(116)	100	4,225	(2.7)
12/31/03	26,825	27,868	1,043	96	3,982	26.2

City of Muskegon Heights  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2003

**NOTE K—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**2. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

**NOTE L—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 34 percent of General Fund revenues.

The City's Water Supply Fund has a significant economic dependence on two other municipalities that are major users of water services. During the year ended December 31, 2003, the municipality's billings for water usage approximated 63 percent of total billings in the Water Supply Fund.

**REQUIRED SUPPLEMENTAL INFORMATION**

City of Muskegon Heights  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended December 31, 2003

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES				
Taxes	\$ 3,012,000	\$ 3,012,000	\$ 2,754,254	\$ (257,746)
Licenses and permits	111,000	111,000	112,291	1,291
Intergovernmental	2,075,000	2,050,000	2,031,932	(18,068)
Charges for services	840,000	635,000	573,775	(61,225)
Fines and forfeitures	10,000	10,000	13,739	3,739
Investment earnings	5,000	5,000	3,420	(1,580)
Miscellaneous	225,500	515,500	188,512	(326,988)
Total revenues	\$ 6,278,500	\$ 6,338,500	\$ 5,677,923	\$ (660,577)

EXPENDITURES

Current

General government

City council	\$ 52,334	\$ 52,334	\$ 50,882	\$ 1,452
Mayor	20,291	24,891	23,950	941
City manager	157,914	154,215	112,818	41,397
Personnel	9,300	6,150	4,502	1,648
Elections	11,200	9,200	8,843	357
Income tax	53,068	54,069	53,605	464
Assessor	173,774	150,824	143,914	6,910
City attorney	95,000	130,000	127,525	2,475
City clerk	57,981	57,981	56,026	1,955
Finance	159,140	159,398	144,727	14,671
Treasurer	47,804	46,804	44,976	1,828
Centennial Celebration	-	10,000	9,865	135
Data processing	16,500	1,000	43	957
Building and grounds	156,377	153,377	144,695	8,682
Other general government	760,961	905,300	856,260	49,040
Motor pool	65,000	70,000	68,172	1,828
Public safety				
Police	1,975,778	2,021,000	1,985,311	35,689
Fire	894,005	1,052,158	994,454	57,704
Inspections	290,485	207,485	196,059	11,426
Special investigations	-	12,000	11,620	380



City of Muskegon Heights  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE--CONTINUED

General Fund  
For the year ended December 31, 2003

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
Public works				
Public works	\$ 52,100	\$ 62,100	\$ 61,082	\$ 1,018
Street lighting	196,200	166,200	160,170	6,030
Traffic	18,645	12,645	(6,672)	19,317
Refuse collection	490,000	490,000	479,602	10,398
Community and economic development				
Farmer's market	2,500	4,500	3,271	1,229
Planning	10,850	26,850	16,914	9,936
Culture and recreation				
Parks	138,687	137,106	121,857	15,249
Library	26,500	28,500	27,357	1,143
Debt service				
Principal	-	-	54,262	(54,262)
Interest and other charges	-	-	3,008	(3,008)
Capital outlay	34,500	21,500	87,478	(65,978)
Total expenditures	5,966,894	6,227,587	6,046,576	181,011
Excess (deficiency) of revenues over expenditures	311,606	110,913	(368,653)	(479,566)
OTHER FINANCING USES				
Transfers out	-	-	(47,165)	(47,165)
SPECIAL ITEM				
Proceeds from sale of capital assets	-	-	22,163	22,163
Proceeds from debt issue	-	-	61,870	61,870
	-	-	84,033	84,033
Net change in fund balances	\$ 311,606	\$ 110,913	(331,785)	\$ (442,698)
Fund deficit at January 1, 2003			(661,700)	
Fund deficit at December 31, 2003			\$ (993,485)	

**OTHER SUPPLEMENTAL INFORMATION**

City of Muskegon Heights  
BALANCE SHEET  
Other Governmental Funds  
December 31, 2003

	Total other governmental funds	Special Revenue Funds								Seaway Industrial Park	Capital Projects	Debt Service	Permanent Fund
		Major Streets	Local Streets	U.P.P.A.R. Grant	Community Development Block Grant	Cemetery	Michigan State Housing Development	Recreation					
ASSETS													
Cash and investments	\$ 588,992	\$ 2,480	\$ 10,747	\$ -	\$ 12,855	\$ -	\$ 7,596	\$ -	\$ -	\$ 38,422	\$ 1,264	\$ 515,628	
Receivables													
Special assessments	9,106	887	8,219	-	-	-	-	-	-	-	-	-	
Other	66,711	-	-	-	-	45,109	-	7,360	-	-	-	14,242	
Due from other funds	168,246	-	50,888	-	-	37,676	16,082	58,000	2,458	-	3,057	85	
Due from other governmental units	533,367	183,414	227,904	-	119,649	-	-	-	2,400	-	-	-	
Total assets	\$ 1,366,422	\$ 186,781	\$ 297,758	\$ -	\$ 132,504	\$ 82,785	\$ 23,678	\$ 65,360	\$ 4,858	\$ 38,422	\$ 4,321	\$ 529,955	
LIABILITIES AND FUND BALANCES (DEFICITS)													
Liabilities													
Accounts payable	\$ 153,509	\$ 52,153	\$ 7,288	\$ -	\$ 39,574	\$ 38,359	\$ -	\$ 16,135	\$ -	\$ -	\$ -	\$ -	
Customer deposits	1,675	-	-	-	-	-	-	1,675	-	-	-	-	
Due to other funds	845,483	499,502	116,325	-	88,894	54,208	23,637	21,091	4,858	-	-	36,968	
Due to component unit	4,918	-	-	-	4,036	-	-	-	-	-	-	882	
Deferred revenue	9,306	887	8,219	-	-	-	-	200	-	-	-	-	
Total liabilities	1,014,891	552,542	131,832	-	132,504	92,567	23,637	39,101	4,858	-	-	37,850	
Fund balances (deficits)													
Reserved for:													
Debt service	4,321	-	-	-	-	-	-	-	-	-	4,321	-	
Capital projects	38,422	-	-	-	-	-	-	-	-	38,422	-	-	
Perpetual care	492,105	-	-	-	-	-	-	-	-	-	-	492,105	
Unreserved	(183,317)	(365,761)	165,926	-	-	(9,782)	41	26,259	-	-	-	-	
Total fund balances (deficits)	351,531	(365,761)	165,926	-	-	(9,782)	41	26,259	-	38,422	4,321	492,105	
Total liabilities and fund balances (deficits)	\$ 1,366,422	\$ 186,781	\$ 297,758	\$ -	\$ 132,504	\$ 82,785	\$ 23,678	\$ 65,360	\$ 4,858	\$ 38,422	\$ 4,321	\$ 529,955	

City of Muskegon Heights  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)  
Governmental Funds  
For the year ended December 31, 2003

	Total other governmental funds	Special Revenue Funds							Capital Projects	Debt Service	Permanent Fund
		Major Streets	Local Streets	U.P.A.R. Grant	Community Development Block Grant	Cemetery	Michigan State Housing Development	Recreation	Seaway Industrial Park		
<b>REVENUES</b>											
Property taxes	\$ 52,356	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,356	\$ -	\$ -	\$ -
Intergovernmental revenues											
Federal	479,820	-	-	-	473,477	-	-	-	6,343	-	-
State	832,148	603,391	228,572	-	-	-	185	-	-	-	-
Special assessments	12,067	308	11,759	-	-	-	-	-	-	-	-
Charges for services	194,406	-	-	-	-	166,213	-	14,926	-	-	13,267
Investment earnings	19,900	69	146	-	4	380	33	-	-	6	19,241
Other	88,605	5,285	1	-	21,414	6,167	-	7,360	-	-	-
Total revenues	1,679,302	609,053	240,478	-	494,895	172,760	218	74,642	6,343	48,399	32,508
<b>EXPENDITURES</b>											
Current											
General government	211,850	-	-	6,373	-	204,582	-	-	-	-	895
Public works	657,216	389,903	238,061	-	-	-	177	-	991	28,084	-
Community and economic development	436,668	-	-	-	436,668	-	-	-	-	-	-
Culture and recreation	106,098	-	-	-	-	-	-	106,098	-	-	-
Debt service											
Principal	56,355	12,479	-	-	28,876	-	-	-	-	15,000	-
Interest and fees	54,539	6,213	-	-	4,351	-	-	-	-	43,975	-
Capital outlay	284,009	275,169	-	-	-	800	-	230	7,810	-	-
Total expenditures	1,806,735	683,764	238,061	6,373	469,895	205,382	177	106,328	8,801	58,975	895
Excess of revenues over (under) expenditures	(127,433)	(74,711)	2,417	(6,373)	25,000	(32,622)	41	(31,686)	(2,458)	(58,969)	31,613
<b>OTHER FINANCING SOURCES (USES)</b>											
Operating transfers in	155,768	-	-	6,373	-	37,563	-	50,399	2,458	58,975	-
Operating transfers out	(83,204)	-	(20,641)	-	(25,000)	-	-	-	-	-	(37,563)
Total other financing sources (uses)	72,564	-	(20,641)	6,373	(25,000)	37,563	-	50,399	2,458	58,975	(37,563)
Net change in fund balances (deficits)	(54,869)	(74,711)	(18,224)	-	-	4,941	41	18,713	-	6	(5,950)
Fund balances (deficits) at January 1, 2003	406,400	(291,050)	184,150	-	-	(14,723)	-	7,546	-	4,315	498,055
Fund balances (deficits) at December 31, 2003	\$ 351,531	\$ (365,761)	\$ 165,926	\$ -	\$ -	\$ (9,782)	\$ 41	\$ 26,259	\$ -	\$ 4,321	\$ 492,105

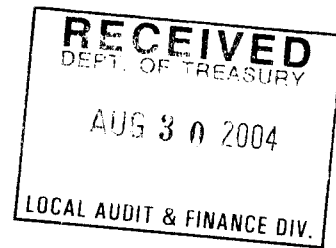
City of Muskegon Heights  
Agency Funds  
**COMBINING STATEMENT OF NET ASSETS**  
December 31, 2003

ASSETS

	Combined	Tax Collection	Payroll Imprest	Woodcliffe Village
Cash and investments	\$ 594,340	\$ 560,217	\$ -	\$ 34,123
Due from other funds	997,552	498,879	498,673	-
Due from component unit	<u>6,991</u>	<u>6,564</u>	<u>427</u>	<u>-</u>
	1,598,883	1,065,660	499,100	34,123

LIABILITIES AND FUND BALANCES

Checks issued against future deposits	417,910	-	417,910	-
Accounts payable	129,874	48,183	81,190	501
Due to other funds	15,941	15,941	-	-
Due to other governmental units	1,001,536	1,001,536	-	-
Deposits held for others	<u>33,622</u>	<u>-</u>	<u>-</u>	<u>33,622</u>
	<u>\$ 1,598,883</u>	<u>\$ 1,065,660</u>	<u>\$ 499,100</u>	<u>\$ 34,123</u>



City of Muskegon Heights  
**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

December 31, 2003

## CONTENTS

### FINANCIAL REPORTS AND INDEPENDENT AUDITORS' REPORTS

#### INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	3
--	---

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	5
--	---

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	8
--	---

SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	10
---	----

#### SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION.....	18
--	----

SCHEDULE OF RECONCILIATION OF REVENUES FROM FEDERAL SOURCES PER FINANCIAL STATEMENTS AND EXPENDITURES PER SINGLE AUDIT REPORT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	19
---	----

#### CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS .....	21
--	----

CORRECTIVE ACTION PLAN.....	29
-----------------------------	----

# BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

---

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

July 28, 2004

City Council  
City of Muskegon Heights  
Muskegon Heights, Michigan

We have audited the financial statements of City of Muskegon Heights as of and for the year ended December 31, 2003 and have issued our report thereon dated July 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### ***Compliance***

As part of obtaining reasonable assurance about whether City of Muskegon Heights' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered City of Muskegon Heights' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Muskegon Heights' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as Findings 1-19, inclusive, in Part B of the accompanying Schedule of Findings and Questioned Costs.



BRICKLEY DeLONG

City Council  
July 28, 2004  
Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 1-5, inclusive, in Part B of the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

This report is intended solely for the information of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley De Long, PLC*

# BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

---

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

July 28, 2004

City Council  
City of Muskegon Heights  
Muskegon Heights, Michigan

### *Compliance*

We have audited the compliance of City of Muskegon Heights with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. City of Muskegon Heights' major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of City of Muskegon Heights' management. Our responsibility is to express an opinion on City of Muskegon Heights' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Muskegon Heights' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Muskegon Heights' compliance with those requirements.

As described in Findings 20 and 21 in Part C of the accompanying Schedule of Findings and Questioned Costs, City of Muskegon Heights did not comply with requirements regarding financial reporting that are applicable to its Community Development Block Grant program. Compliance with such requirements is necessary, in our opinion, for City of Muskegon Heights to comply with requirements applicable to that program.

City Council  
July 28, 2004  
Page 2

In our opinion, except for noncompliance described in the preceding paragraph, City of Muskegon Heights complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

***Internal Control Over Compliance***

The management of City of Muskegon Heights is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Muskegon Heights' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions in relation to a major federal program. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect City of Muskegon Heights' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in Part C of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

City Council  
July 28, 2004  
Page 3

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of City of Muskegon Heights as of and for the year ended December 31, 2003 and have issued our report thereon dated July 28, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLLC*

City of Muskegon Heights  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended December 31, 2003

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2003	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2003	Note
<i>U.S. Department of Housing and Urban Development</i>							
Direct programs							
Community Development Block Grant	14.218						
B-01-MC-26-0027		\$ 586,000	\$ 65,213	\$ 21,325	\$ -	\$ 43,888	
B-02-MC-26-0027		593,000	18,518	256,579	265,209	27,148	
B-03-MC-26-0027		579,000	-	159,646	208,268	48,622	
Program Income		21,418	-	21,418	21,418	-	
Total U.S. Department of Housing and Urban Development		1,779,418	83,731	458,968	494,895	119,658	
<i>U.S. Department of Health and Human Services</i>							
Passed through City of Muskegon							
Empowerment Zones/Enterprise Communities							
Social Services Block Grant	93.585	30,653	-	30,653	30,653	-	2
EC/EZ-95-61001							
<i>U.S. Department of Justice</i>							
Passed through City of Holland							
WEMET Multi-Jurisdictional Drug Enforcement CO-OP	16.574	25,482	6,294	25,482	19,188	-	
70834-4K02							
Passed through County of Ottawa							
WEMET Multi-Jurisdictional Drug and Gang Task Force	16.579	24,893	-	7,903	7,903	-	
70834-503B							
Passed through City of Muskegon							
Asset Forfeiture Fund Grant	16.595	20,649	-	20,649	20,649	-	
Total U.S. Department of Justice		71,024	6,294	54,034	47,740	-	

City of Muskegon Heights  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended December 31, 2003

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2003	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2003	Note
<i>U.S. Federal Emergency Management Administration</i>							
Direct programs							
Assistance to firefighters grant training program EMW-2002-FG-07777	83.554	\$ 46,270	\$ -	\$ 36,245	\$ 36,245	\$ -	
<i>U.S. Department of Commerce Economic Development Administration</i>							
Direct programs							
Economic Development - Support for planning 06-86-04609	11.302	62,400	29,862	33,805	6,343	2,400	
<i>U.S. Department of the Interior</i>							
Direct programs							
Urban Park and Recreation Recovery Program 26-CTY-3460-01-01	15.919	86,441	61,231	61,231	-	-	
<b>TOTAL FEDERAL ASSISTANCE</b>		<b>\$ 2,076,206</b>	<b>\$ 181,118</b>	<b>\$ 674,936</b>	<b>\$ 615,876</b>	<b>\$ 122,058</b>	

**Notes:**

1. See the financial statements footnotes for accounting policies used in preparing this schedule.
2. Federal money received after being written off as uncollectible in prior years.

City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2003

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Muskegon Heights.
2. *Nineteen (19)* reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. *Five (5)* of these reportable conditions are reported as material weaknesses.
3. There were *no* instances of noncompliance material to the financial statements of City of Muskegon Heights disclosed during the audit, as reported in Part B of this Schedule.
4. *Two (2)* reportable conditions disclosed during the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and are reported in Parts B and C of this schedule.
5. The auditors' report on compliance for the major federal award program for City of Muskegon Heights expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a major program was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Housing and Urban Development Community Development Block Grant</i>	14.218

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. City of Muskegon Heights was not determined to be a low-risk auditee.

City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
 Year ended December 31, 2003

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	Questioned Costs
<b>COMPLIANCE</b>	
NONE	None
<b>REPORTABLE CONDITIONS</b>	
<p><b>Year 2003 Finding No. 1: <i>MATERIAL WEAKNESS</i>—Assessment of Current Financial Position as of and for the year ended December 31, 2003</b></p> <p><i>Condition:</i> The City had significant fund deficits and/or deficit operations for the General Fund and other significant funds.</p> <p><i>Effect:</i> If similar operational deficits are experienced for the year ending December 31, 2004, the City's ability to maintain sufficient operational working capital and solvency for periods after December 31, 2004 will be greatly challenged.</p> <p><i>Recommendation:</i> The City Council and management should immediately assess the City's current financial position and forecast the City's 2004 and future operations.</p>	None
<p><b>Year 2003 Finding No. 2: <i>MATERIAL WEAKNESS</i>—Payroll Segregation of Duties</b></p> <p><i>Condition:</i> One individual is responsible for numerous payroll and general ledger functions.</p> <p><i>Effect:</i> Errors or the misappropriation of funds could go undetected.</p> <p><i>Recommendation:</i> The segregation of duties within the payroll function should be improved.</p>	None
<p><b>Year 2003 Finding No. 3: <i>MATERIAL WEAKNESS</i>—General Ledger Journal Entry Review Procedures</b></p> <p><i>Condition:</i> A significant number of journal entries are being posted to the general ledger without review and approval by an appropriate official.</p> <p><i>Effect:</i> Errors or the misappropriation of assets could go undetected.</p> <p><i>Recommendation:</i> Journal entries should be reviewed by an appropriate official.</p>	None



City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
Year ended December 31, 2003

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS		Questioned Costs
REPORTABLE CONDITIONS—Continued		
Year 2003 Finding No. 4: <i>MATERIAL WEAKNESS</i> —Monthly Internal Financial Statements		
<i>Condition:</i> City management did not provide internally-prepared financial statements on a monthly basis to the City Council and/or its Finance Committee.		None
<i>Effect:</i> The City’s governing body was denied accurate monthly financial statements which would have provided vital information for analysis and deliberations on critical issues.		
<i>Recommendation:</i> Fully-adjusted financial statements, including budget-to-actual comparisons, should be provided timely on a monthly basis to the City Council and/or its Finance Committee.		
Year 2003 Finding No. 5: <i>MATERIAL WEAKNESS</i> —Bank Reconciliation Procedures		
<i>Condition:</i> Bank reconciliations were not prepared on a timely basis.		None
<i>Effect:</i> Errors in recording certain cash transactions, which would have been detected during the year by the application of standard bank reconciliation procedures, were not detected until many months after year end when such reconciliation procedures were eventually performed.		
<i>Recommendation:</i> Bank reconciliations should be prepared on a timely basis.		
Year 2003 Finding No. 6: Retirement Plan Remittance Procedures		
<i>Condition:</i> Certain pension plan contributions were not remitted timely to the plan investment agent within federal requirements.		None known at this time
<i>Effect:</i> The City could be deemed to be in noncompliance with federal requirements.		
<i>Recommendation:</i> Retirement plan contributions should be remitted on a timely basis.		
Year 2003 Finding No. 7: CDBG Budgeting Procedures		
<i>Condition:</i> The City budgeted 2003 CDBG expenditures equal to the federally approved grant. However, the grant spans multiple years with only a portion of the grant to be spent in any given year.		None
<i>Effect:</i> The budgeted 2003 CDBG expenditures are significantly greater than would be expected.		
<i>Recommendation:</i> The CDBG operating budget should be based upon anticipated expenditures during the year.		

City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
 Year ended December 31, 2003

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	Questioned Costs
<b>REPORTABLE CONDITIONS—Continued</b>	
<p><b>Year 2003 Finding No. 8:</b> Property Tax Collection Fund Cash Collections and Disbursements Reconciliation Procedures</p> <p><i>Condition:</i> The Property Tax Collection Fund cash collections and disbursements were not reconciled with supporting documents during the year.</p> <p><i>Effect:</i> Errors or the misappropriation of funds could go undetected during the year.</p> <p><i>Recommendation:</i> Property Tax Collection Fund cash collections and disbursements should be reconciled with supporting documents on an interim basis.</p>	None
<p><b>Year 2003 Finding No. 9:</b> Property Tax Revenue and Recording Allocation Procedures</p> <p><i>Condition:</i> Property tax revenues are recorded as cash is received.</p> <p><i>Effect:</i> Revenues are primarily recorded in peak collection periods, causing monthly periods to report either large or small revenues.</p> <p><i>Recommendation:</i> Property tax revenues should be allocated and recorded monthly among various funds.</p>	None
<p><b>Year 2003 Finding No. 10:</b> Property Tax Collection Fund Remittance Procedures</p> <p><i>Condition:</i> The City failed to remit all property taxes which it collected a number of years ago for other governmental units.</p> <p><i>Effect:</i> The City did not comply in State of Michigan remittance requirements.</p> <p><i>Recommendation:</i> The Property Tax Collection Fund should pay all amounts owed to other governmental units.</p>	None
<p><b>Year 2003 Finding No. 11:</b> Monthly General Ledger Closing Procedures</p> <p><i>Condition:</i> A significant number of general ledger accounts required numerous adjusting journal entries to correct account activity during the year.</p> <p><i>Effect:</i> Interim general ledger account balances were materially incorrect.</p> <p><i>Recommendation:</i> The accounting department should utilize a monthly closing checklist in conjunction with the preparation of monthly financial statements.</p>	None
<p><b>Year 2003 Finding No. 12:</b> Federal Expenditure Reporting Procedures</p> <p><i>Condition:</i> There were delays between the time certain federal expenditures were incurred and the request/drawdown of federal funds was performed.</p> <p><i>Effect:</i> City cash flow was adversely affected.</p> <p><i>Recommendation:</i> The system for tracking grant reimbursement requests and budget amendments of federal programs should be improved.</p>	None

City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
 Year ended December 31, 2003

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	Questioned Costs
<b>REPORTABLE CONDITIONS—Continued</b>	
<p><b>Year 2003 Finding No. 13:</b> Interfund Transfer Recording Procedures</p> <p><i>Condition:</i> Several interfund transfers were not recorded in the general ledger during the year.</p> <p><i>Effect:</i> Interim general ledger account balances were materially incorrect.</p> <p><i>Recommendation:</i> A system should be developed to ensure that all interfund transfers are recorded on a timely basis.</p>	None
<p><b>Year 2003 Finding No. 14:</b> Reconciliation of Account Balances to Supporting Documentation</p> <p><i>Condition:</i> General ledger account balances for receivables, interfund receivables/payables, interfund transfers, accounts payable, other liability, and other accounts were not reconciled to supporting documentation on a timely basis.</p> <p><i>Effect:</i> Failure to reconcile general ledger account balances timely can adversely affect the accuracy of internally-prepared monthly financial statements and, correspondingly, adversely affect the analysis and conclusions as to the City's financial position and results of operations by the City Council, management, and other users of such monthly financial statements. Additionally, this condition significantly increases the amount of year end general ledger account analysis and adjusting journal entries by City personnel, causing significant delays in closing fiscal year financial records and issuing audited financial statements.</p> <p><i>Recommendation:</i> Account balances should be reconciled to detailed supporting documentation on a timely basis.</p>	None
<p><b>Year 2003 Finding No. 15:</b> Monitoring Accounts Receivable and Grants Receivable</p> <p><i>Condition:</i> Some accounts receivable and grants receivable balances were delinquent in excess of a year.</p> <p><i>Effect:</i> Potential collection of delinquent receivables diminishes as significant time passes before aggressive collection procedures are initiated.</p> <p><i>Recommendation:</i> Accounts receivable and grants receivable balances should be reviewed periodically.</p>	None
<p><b>Year 2003 Finding No. 16:</b> Interfund Obligations</p> <p><i>Condition:</i> Several funds have maintained significant interfund liability balances while cash balances were available to satisfy significant portions of the liabilities.</p> <p><i>Effect:</i> Interfund account balances are larger and more extensive than necessary.</p> <p><i>Recommendation:</i> Due to/due from other funds accounts should be monitored and cleared in a timely manner.</p>	None

City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
 Year ended December 31, 2003

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	Questioned Costs
<b>REPORTABLE CONDITIONS—Continued</b>	
<b>Year 2003 Finding No. 17: Water Fund Revenue Recording</b>	
<i>Condition:</i> No revenues were recorded in the Water Supply Fund during the year ended December 31, 2003. The Water Supply Fund revenues were incorrectly recorded as revenues in the Water Fund.	
<i>Effect:</i> This condition resulted in the accounting records reporting the Water Supply Fund with a large current year operating deficit throughout the year ended December 31, 2003.	None
<i>Recommendation:</i> The Water Supply Fund revenues should be recorded monthly in the proper fund.	
<b>Year 2003 Finding No. 18: Utility Accounts Receivable Reconciliations</b>	
<i>Condition:</i> The general ledger balances for accounts receivable within the utility departments for customers did not agree with the customer detail report.	
<i>Effect:</i> Failure to timely reconcile accounts receivable general ledger account balances with detailed customer accounts balance creates an opportunity for errors or misappropriations of funds to go undetected.	None
<i>Recommendation:</i> The general ledger and customer detail of utility billing accounts receivable should be reconciled monthly.	
<b>Year 2003 Finding No. 19: Federal Financial Reporting Procedures</b>	
<i>Condition:</i> There were numerous inaccuracies in the annual U.S. Department of Housing and Urban Development Consolidated Annual Performance Report (CAPER), primarily due to inaccuracies in the City's accounting records.	
<i>Effect:</i> The CAPER incorrectly reported grant operations.	None
<i>Recommendation:</i> Federal program expenditure reports should be filed with accurate financial information.	

City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
Year ended December 31, 2003

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

Questioned  
Costs

---

**COMPLIANCE**

**U.S. Department of Housing and Urban Development**

**Year 2003 Finding No. 20: Financial Reporting on the IDIS**

CFDA: 14.218

Award Year Ended: June 30, 2003

*Condition:* The City made multiple budget amendments on the federal Integrated Disbursement and Information System (IDIS), while not maintaining reconciliations of the effects of such amendments. Further, supporting documentation for expenditures reported on IDIS was not readily available.

*Effect:* Auditors could not reconcile the IDIS original budget and final budget amounts, and City management had difficulty providing auditors with supporting documentation for IDIS drawdowns.

None

*Recommendations:* See Finding No. 12 in Part B above.

**U.S. Department of Housing and Urban Development**

**Year 2003 Finding No. 21: Financial Reporting on the IDIS**

CFDA: 14.218

Award Year Ended: June 30, 2003

See Finding No. 19 in Part B above.

None

**REPORTABLE CONDITIONS**

See Findings 12 and 19 in Part B above.

None

**SUPPLEMENTAL INFORMATION**

**BRICKLEY DeLONG**  
CERTIFIED PUBLIC ACCOUNTANTS

---

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION**

July 28, 2004

City Council  
City of Muskegon Heights  
Muskegon Heights, Michigan

We have audited the financial statements of City of Muskegon Heights as of and for the year ended December 31, 2003 and have issued our report thereon dated July 28, 2004. Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on page 19 is provided for purposes of additional analysis and is not a required part of the financial statements or the accompanying Schedule of Expenditures of Federal Awards. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements of City of Muskegon Heights and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Brickley De Long, PLLC*

City of Muskegon Heights  
**SCHEDULE OF RECONCILIATION OF REVENUES FROM FEDERAL SOURCES  
PER FINANCIAL STATEMENTS AND EXPENDITURES PER SINGLE AUDIT  
REPORT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year ended December 31, 2003

The following is a reconciliation of federal revenues as reported on page 7 of the City of Muskegon Heights financial statements for the year ended December 31, 2003 and federal expenditures per the Schedule of Expenditures of Federal Awards on page 9 of this single audit report.

Federal revenues per City of Muskegon Heights financial statements  
for the year ended December 31, 2003 (page 7)

General Fund	\$ 114,637
Other governmental funds	<u>479,820</u>
	594,457

Plus program income	21,418
---------------------	--------

Rounding variance	<u>1</u>
-------------------	----------

Federal assistance expenditures and operating transfers out per Schedule of Expenditures of Federal Awards (page 9)	<u><u>\$ 615,876</u></u>
--	--------------------------



**CLIENT DOCUMENTS**

# City of MUSKEGON HEIGHTS

2724 Peck Street  
Muskegon Heights, Michigan 49444

Phone (231) 733-8999  
Fax (231) 733-5229

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

July 28, 2004

U.S. Department of Housing and Urban Development  
Detroit, Michigan

City of Muskegon Heights respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended December 31, 2002 dated July 31, 2003.

### **B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

#### **COMPLIANCE**

There were *no* compliance findings.

#### **REPORTABLE CONDITIONS**

**Year 2002 Finding No. 1: MATERIAL WEAKNESS—Payroll Segregation of Duties**

**Condition:** One individual is responsible for numerous payroll and general ledger functions.

**Recommendation:** The segregation of duties within the payroll function should be improved.

**Current Status:** See Finding No. 2 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 2: MATERIAL WEAKNESS—General Ledger Journal Entry Review Procedures**

**Condition:** A significant number of journal entries are being posted to the general ledger without review and approval by an appropriate official.

**Recommendation:** Journal entries should be reviewed by an appropriate official.

**Current Status:** See Finding No. 3 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2002 Finding No. 3: MATERIAL WEAKNESS—Monthly Internal Financial  
Statements**

**Condition:** City management did not provide internally-prepared financial statements on a monthly basis to the City Council and/or its Finance Committee.

**Recommendation:** Fully-adjusted financial statements, including budget-to-actual comparisons, should be provided timely on a monthly basis to the City Council and/or its Finance Committee.

**Current Status:** See Finding No. 4 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 4: MATERIAL WEAKNESS—Compliance with Michigan General  
Ledger Chart of Accounts**

**Condition:** Numerous transactions were recorded incorrectly in general ledger accounts due to such transactions being initially coded to an incorrect general ledger account.

**Recommendation:** Transactions should be coded to general ledger accounts in accordance with the State of Michigan standard chart of accounts at the time transactions are executed.

**Current Status:** No similar finding reported for the single audit for the year ended December 31, 2003.

**Year 2002 Finding No. 5: MATERIAL WEAKNESS—Remittance of Property Tax  
Collections**

**Condition:** The City was delinquent in remitting property taxes collected and owed to school districts and other municipalities.

**Recommendation:** Property tax collections should be remitted timely to school districts and other municipalities in accordance with State of Michigan requirements.

**Current Status:** No similar finding reported for the single audit for the year ended December 31, 2003, but prior year property tax amounts withheld have still not been remitted, see recommendation 10.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2002 Finding No. 6: MATERIAL WEAKNESS—**Prevention of Excess Transfers of Agency Property Tax Collections to the City's General Fund

**Condition:** The City transferred property tax collections to the City's General Fund greater than the City's General Fund was entitled.

**Recommendation:** Procedures and oversight should be established to prevent the transfer of property tax collections of school districts and other municipalities to the City's General Fund.

**Current Status:** No similar finding reported for the single audit for the year ended December 31, 2003.

**Year 2002 Finding No. 7: MATERIAL WEAKNESS—**Bank Reconciliation Procedures

**Condition:** Bank reconciliations were not prepared on a timely basis.

**Recommendation:** Bank reconciliations should be prepared on a timely basis.

**Current Status:** See Finding No. 5 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 8: MATERIAL WEAKNESS—**Accounts Payable Reconciliation Procedures

**Condition:** The accounts payable general ledger account was not reconciled to the accounts payable trial balance during the year ended December 31, 2002.

**Recommendation:** The accounts payable detailed trial balance should be reconciled with the general ledger on a monthly basis.

**Current Status:** No similar finding reported for the single audit for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 9: Monthly General Ledger Closing Procedures**

**Condition:** A significant number of general ledger accounts required numerous adjusting journal entries to correct account activity during the year.

**Recommendation:** The accounting department should utilize a monthly closing checklist in conjunction with the preparation of monthly financial statements.

**Current Status:** See Finding No. 10 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2002 Finding No. 10: Implementation of GASB 34 and Related Statements**

**Condition:** City personnel have not completed the work necessary for the implementation of GASB 34 and related statements.

**Recommendation:** A master plan should be developed for preparing the City's accounting records for conversion to the financial reporting model required by GASB 34 and related statements.

**Current Status:** No similar finding reported for the single audit for the year ended December 31, 2003.

**Year 2002 Finding No. 11: Long-range Planning Procedures**

**Condition:** The City has a General Fund fund balance deficit and numerous funds have low fund balances.

**Recommendation:** A comprehensive long-range plan should be developed.

**Current Status:** No similar finding reported for the single audit for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 12: Federal Expenditure Reporting Procedures**

**Condition:** There were delays between the time certain federal expenditures were incurred and the request/drawdown of federal funds was performed.

**Recommendation:** The system for tracking grant reimbursement requests and budget amendments of federal programs should be improved.

**Current Status:** See Finding No. 12 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 13: Interfund Transfer Recording Procedures**

**Condition:** Several interfund transfers were not recorded in the general ledger during the year.

**Recommendation:** A system should be developed to ensure that all interfund transfers are recorded on a timely basis.

**Current Status:** See Finding No. 13 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2002 Finding No. 14: Public Act 51 Restrictions**

**Condition:** During the year ended December 31, 2002, the General Fund borrowed approximately \$157,000 from the Local Street Fund (LSF). The LSF primary revenue source is Public Act 51 funds, which are restricted for specific purposes.

**Recommendation:** Interfund loans should not be made from Public Act 51 revenue sharing.

**Current Status:** No similar finding reported for the single audit for the year ended December 31, 2003.

**Year 2002 Finding No. 15: Reconciliation of Account Balances to Supporting Documentation**

**Condition:** General ledger account balances for receivables, interfund receivables/payables, interfund transfers, accounts payable, other liability, and other accounts were not reconciled to supporting documentation on a timely basis.

**Recommendation:** Account balances should be reconciled to detailed supporting documentation on a timely basis.

**Current Status:** See Finding No. 14 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 16: Monitoring Cash Balances**

**Condition:** Throughout the fiscal year ended December 31, 2002, general ledger cash balances of a number of funds were negative. This condition was able to occur because the City maintains a common bank account for multiple funds.

**Recommendation:** The level of cash balances, including restricted fund cash balances, should be closely monitored.

**Current Status:** No similar finding reported for the single audit for the year ended December 31, 2003.

**Year 2002 Finding No. 17: Monitoring Accounts Receivable and Grants Receivable**

**Condition:** Some accounts receivable and grants receivable balances were delinquent in excess of a year.

**Recommendation:** Accounts receivable and grants receivable balances should be reviewed periodically.

**Current Status:** See Finding No. 15 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2002 Finding No. 18: Interfund Obligations**

**Condition:** Several funds have maintained significant interfund liability balances while cash balances were available to satisfy significant portions of the liabilities.

**Recommendation:** Due to/due from other funds accounts should be monitored and cleared in a timely manner.

**Current Status:** See Finding No. 16 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 19: Water Fund Revenue Recording**

**Condition:** No revenues were recorded in the Water Supply Fund during the year ended December 31, 2002. The Water Supply Fund revenues were incorrectly recorded as revenues in the Water Fund.

**Recommendation:** The Water Supply Fund revenues should be recorded monthly in the proper fund.

**Current Status:** See Finding No. 17 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 20: Utility Accounts Receivable Reconciliations**

**Condition:** The general ledger balances for accounts receivable within the utility departments for customers did not agree with the customer detail report.

**Recommendation:** The general ledger and customer detail of utility billing accounts receivable should be reconciled monthly.

**Current Status:** See Finding No. 18 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**Year 2002 Finding No. 21: Federal Financial Reporting Procedures**

**Condition:** There were numerous inaccuracies in the annual U.S. Department of Housing and Urban Development Consolidated Annual Performance Report (CAPER), primarily due to inaccuracies in the City's accounting records.

**Recommendation:** Federal program expenditure reports should be filed with accurate financial information.

**Current Status:** See Finding No. 19 in the single audit report for the year ended December 31, 2003 for similar finding noted.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2002 Finding No. 22:** Federal Program Account Distribution Procedures

**Condition:** There were various cash disbursements transactions charged to the incorrect fund and/or to the incorrect expenditure accounts. These misclassifications eventually were corrected.

**Recommendation:** General ledger account distributions related to federal programs should be reviewed.

**Current Status:** No similar finding reported for the single audit for the year ended December 31, 2003.

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD  
PROGRAMS AUDIT**

**COMPLIANCE**

**U.S. Department of Housing and Urban Development**

**Year 2002 Finding No. 23:** Financial Reporting on the IDIS

CFDA: 14.218

Award Year Ended: June 30, 2002

**Condition:** The City made multiple budget amendments on the federal Integrated Disbursement and Information System (IDIS), while not maintaining reconciliations of the effects of such amendments. Further, supporting documentation for expenditures reported on IDIS was not readily available.

**Recommendation:** See Finding No. 12 in Part B above.

**Current Status:** See Finding No. 20 in the single audit report for the year ended December 31, 2003 for similar finding noted.



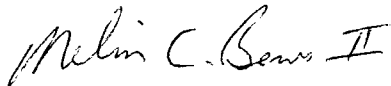
U.S. Department of Housing and Urban Development  
July 28, 2004  
Page 8

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD  
PROGRAMS AUDIT—Continued**

**REPORTABLE CONDITIONS**

See Findings No. 12, 21, and 22 in Part B above.

Sincerely,

A handwritten signature in cursive script that reads "Melvin C. Burns II".

Melvin C. Burns, II  
City Manager

# City of MUSKEGON HEIGHTS

2724 Peck Street  
Muskegon Heights, Michigan 49444

Phone (231) 733-8999  
Fax (231) 733-5229

## CORRECTIVE ACTION PLAN

July 28, 2004

U.S. Department of Housing and Urban Development  
Detroit, Michigan

City of Muskegon Heights respectfully submits the following Corrective Action Plan for the year ended December 31, 2003.

Name and address of independent public accounting firm:

Brickley DeLong  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: December 31, 2003

The findings from the Schedule of Findings and Questioned Costs for the year ended December 31, 2003 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

### B. FINDINGS—FINANCIAL STATEMENT AUDIT

#### COMPLIANCE

There were *no* compliance findings.

#### REPORTABLE CONDITIONS

**Year 2003 Finding No. 1: *MATERIAL WEAKNESS***—Assessment of Current Financial Position

**Recommendation:** The City Council and management should immediately assess the City's current financial position and forecast the City's 2004 and future operations.

**Action Taken:** At the City Council work session in February 2004 and again during the planning phase of this report, the City Council has indicated a need to do this. It is anticipated that staff will begin to provide City Council with recommendations by August 31, 2004.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2003 Finding No. 2: *MATERIAL WEAKNESS*—Payroll Segregation of Duties**

**Recommendation:** The segregation of duties within the payroll function should be improved.

**Action Taken:** A procedure was implemented during the course of the year in which the City Manager will review and approve the final payroll register, which will cover all relevant entries and distributions. Staff will continue to work on a separation of these functions as staff is available.

**Year 2003 Finding No. 3: *MATERIAL WEAKNESS*—General Ledger Journal Entry Review Procedures**

**Recommendation:** Journal entries should be reviewed by an appropriate official.

**Action Taken:** Staff will take this recommendation under advisement and attempt to develop a process that attempts to account for the potential concerns.

**Year 2003 Finding No. 4: *MATERIAL WEAKNESS*—Monthly Internal Financial Statements**

**Recommendation:** Fully-adjusted financial statements, including budget-to-actual comparisons, should be provided timely on a monthly basis to the City Council and/or its Finance Committee.

**Action Taken:** During the fiscal year, staff provided City Council/Finance Committee with monthly financial statements including a budget-to-actual comparison, an accounts payable report, a cash balance report and an accounts receivable report. Additional efforts to make these reports more timely and more thorough will be made in response to this recommendation.

**Year 2003 Finding No. 5: *MATERIAL WEAKNESS*—Bank Reconciliation Procedures**

**Recommendation:** Bank reconciliations should be prepared on a timely basis.

**Action Taken:** As stated in the response to Finding No. 4, a greater effort will be made to improve the timelines of these reconciliations.

**Year 2003 Finding No. 6: Retirement Plan Remittance Procedures**

**Recommendation:** Retirement plan contributions should be remitted on a timely basis.

**Action Taken:** During the course of the fiscal year, this error was noted and corrected by staff.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2003 Finding No. 7: CDBG Budgeting Procedures**

**Recommendation:** The CDBG operating budget should be based upon anticipated expenditures during the year.

**Action Taken:** The adopting of a budget in accordance with anticipated activities during the year would strengthen the expenditure controls in this fund. This new budget could also be used to track in later years the balance of grant expenditures by line items still available and help ensure that no expenses are incurred beyond grant limits.

**Year 2003 Finding No. 8: Property Tax Collection Fund Cash Collections and Disbursements Reconciliation Procedures**

**Recommendation:** Property Tax Collection Fund cash collections and disbursements should be reconciled with supporting documents on an interim basis.

**Action Taken:** Staff will make the necessary steps to implement this recommendation.

**Year 2003 Finding No. 9: Property Tax Revenue Allocation and Recording Procedures**

**Recommendation:** Property tax revenues should be allocated and recorded monthly among the various funds.

**Action Taken:** Staff anticipates incorporating this recommendation by the end of fiscal 2004.

**Year 2003 Finding No. 10: Property Tax Collection Fund Remittance Procedures**

**Recommendation:** The Property Tax Collection Fund should pay all amounts owed to other governmental units.

**Action Taken:** This finding does not indicate that the City has not made progress on the amounts owed. Periodic allocations are made to reduce this liability and meet this obligation.

**Year 2003 Finding No. 11: Monthly General Ledger Closing Procedures**

**Recommendation:** The accounting department should utilize a monthly closing checklist in conjunction with the preparation of monthly financial statements.

**Action Taken:** As reported previously, the City staff now goes through an orderly completion and reporting of the monthly financial reports. The production of these reports has insured that the items stressed in the detail of this recommendation have been accomplished.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2003 Finding No. 12: Federal Expenditure Reporting Procedures**

**Recommendation:** The system for tracking grant reimbursement requests and budget amendments of federal programs should be improved.

**Action Taken:** As of the date of this report, a schedule has been prepared by City staff to coordinate the tracking of expenditures and reimbursements with the Federal I.D.I.S. system. This will provide for a comprehensive, coordinated tracking and comparison of the federal system with the City's internal system, thus eliminating delays in drawdowns, improving accuracy, and identifying appropriate adjustments.

**Year 2003 Finding No. 13: Interfund Transfer Recording Procedures**

**Recommendation:** A system should be developed to ensure that all interfund transfers are recorded on a timely basis.

**Action Taken:** With the implementation of improved monthly financial reporting to the City Council, staff anticipates that the appropriate transfers are more readily identified and recorded timely.

**Year 2003 Finding No. 14: Reconciliation of Account Balances to Supporting Documentation**

**Recommendation:** Account balances should be reconciled to detailed supporting documentation on a timely basis.

**Action Taken:** As reported in Recommendation 1, this is now being done and reported to the City Council on a monthly basis. Staff anticipates improving the timeliness and thoroughness of this process.

**Year 2003 Finding No. 15: Monitoring Accounts Receivable and Grants Receivable**

**Recommendation:** Accounts receivable and grants receivable balances should be reviewed periodically.

**Action Taken:** This recommendation primarily relates to the outstanding receivables with the Muskegon Heights Housing Commission (Commission). Due to their financial condition, the receivables remained open for an extended period of time. Staff determined that these receivables were still collectable and should remain on the books despite anticipating this finding. We now have a written agreement with the Commission for repayment of the outstanding receivables over a period of time. City Council is aware of this agreement and concurs with this item remaining open. This item is included on the monthly account receivables report.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**REPORTABLE CONDITIONS—Continued**

**Year 2003 Finding No. 16: Interfund Obligations**

**Recommendation:** Due to/due from other funds accounts should be monitored and cleared in a timely manner.

**Action Taken:** Once the items in Recommendations 6 and 7 have been completed, we will be able to update and monitor the due to/due from other fund accounts on a monthly basis. Staff has already begun the process of monitoring and clearing these transactions. The clearing of this recommendation is also subject to the availability of funds.

**Year 2003 Finding No. 17: Water Fund Revenue Recording**

**Recommendation:** The Water Supply Fund revenues should be recorded monthly in the proper fund.

**Action Taken:** City staff is confident that this recommendation can be followed. It requires staff to review the appropriate accounts for recording revenues and reconciling accounts on a monthly basis. This recommendation has been implemented.

**Year 2003 Finding No. 18: Utility Accounts Receivable Reconciliations**

**Recommendation:** The general ledger and customer detail of utility billing accounts receivable should be reconciled monthly.

**Action Taken:** City staff is confident that this recommendation can be addressed. It requires staff to review and reconcile the detailed accounts receivable customer reports with the general ledger. This very time consuming recommendation has been implemented in the current fiscal year. In addition, the incorporation of new software and proposed reorganization of the Financial and Water Departments should address this concern.

**Year 2003 Finding No. 19: Federal Financial Reporting Procedures**

**Recommendation:** Federal program expenditure reports should be filed with accurate financial information.

**Action Taken:** As of the date of this report, City staff has updated all CDBG expenditure information. Since this information is current for the first time in a number of years, we do not anticipate a repeat of this finding. To insure that all information remains current, all drawdowns for reimbursement will be made timely and accurately.

U.S. Department of Housing and Urban Development  
July 28, 2004  
Page 6

## **C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS**

### **COMPLIANCE**

#### **U.S. Department of Housing and Urban Development**

**Year 2003 Finding No. 20:** Financial Reporting on the IDIS

CFDA: 14.218

Award Year Ended: June 30, 2003

*Recommendation:* See Finding No. 12 in Part B above.

*Action Taken:*

#### **U.S. Department of Housing and Urban Development**

**Year 2003 Finding No. 21:** Financial Reporting on the IDIS

CFDA: 14.218

Award Year Ended: June 30, 2003

*Recommendation:* See Finding No. 19 in Part B above.

*Action Taken:*

### **REPORTABLE CONDITIONS**

See Findings No. 12 and 19 in Part B above.

If the U.S. Department of Housing and Urban Development has questions regarding this plan, please call Melvin C. Burns, II at (231) 733-8870.

Sincerely,



Melvin C. Burns, II  
City Manager

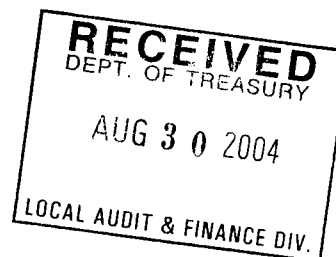
# BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

---

July 28, 2004

City Council  
City of Muskegon Heights  
Muskegon Heights, Michigan



In planning and performing our audit of the financial statements of the City of Muskegon Heights for the year ended December 31, 2003, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Muskegon Heights' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the recommendations in the Material Weaknesses section of the attached summary are material weaknesses.

This report is intended for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLLC*



## REPORTABLE CONDITIONS

The reportable conditions summarized below are categorized within two groups: material weaknesses and other reportable conditions. Within each of these two categories, the reportable conditions are divided between those noted during the December 31, 2003 audit and those noted during the December 31, 2002 and 2001 audits.

### MATERIAL WEAKNESSES

Recommendation 1: The City Council and management should immediately assess the City's current financial position and forecast the City's 2004 and future operations.

As of and for the year ended December 31, 2003, the City had significant fund deficits and/or deficit operations for the General Fund and other significant funds, which is contrary to the City's deficit reduction plan. If similar operational deficits are experienced for the year ending December 31, 2004, the City's ability to maintain sufficient operational working capital and solvency for periods after December 31, 2004 will be greatly challenged.

The immediate assessment of the City's current financial condition and forecast of 2004 operations would enable the City Council to forecast working capital requirements for operation planning for periods subsequent to December 31, 2004.

We consider the following material weaknesses contained in our July 31, 2003 letter as still applicable:

Recommendation 1: The segregation of duties within the payroll function should be improved.

Recommendation 2: Journal entries should be reviewed by an appropriate official.

We consider the following material weaknesses contained in our November 25, 2002 letter as still applicable:

Recommendation 1: Fully-adjusted financial statements, including budget-to-actual comparisons, should be provided timely on a monthly basis to the City Council and/or its Finance Committee.

Recommendation 6: Bank reconciliations should be prepared on a timely basis.

## OTHER REPORTABLE CONDITIONS

Recommendation 2: Retirement plan contributions should be remitted on a timely basis.

During our testing, we noted that some pension plan contributions were not remitted timely within associated federal regulation requirements to the plan investment agent.

The timely remittance of retirement plan contributions would ensure compliance with associated federal laws and regulations.

Recommendation 3: The Community Development Block Grant Fund operating budget should be developed based upon anticipated expenditures during the year.

During our testing, we noted the budget expenditures adopted for the Community Development Block Grant Fund was the entire amount of the federally approved grant. The grant spans multiple years, and only a portion of the grant is expended in any given year.

The adopting of a budget in accordance with anticipated activities during the year would strengthen the expenditure controls in this Fund. This new budget could also be used to track in later years the balance of grant expenditures by line items still available and help ensure that no expenses are incurred beyond grant limits.

Recommendation 4: Property Tax Collection Fund cash collections and disbursements should be reconciled with supporting documents on an interim basis.

During our tests, we noted that the Property Tax Collection Fund cash collections and disbursements had not been reconciled with supporting documents during the fiscal year. The failure to reconcile the accounts on an interim basis provides the opportunity that errors will occur and not be discovered on a timely basis.

The monthly reconciliation of the Property Tax Collection Fund accounts with supporting documentation would help ensure that all amounts are distributed accurately and properly recorded within the Property Tax Collection Fund.

Recommendation 5: Property tax revenues should be allocated and recorded monthly in the General Fund, Recreation Fund and Downtown Development Authority.

During our testing, we noted that property tax revenues are recorded in the associated funds as cash is collected during the fiscal year. The majority of the City's property tax collections occur during peak periods. The recording of revenues as cash is received during these peak periods does not provide for a steady revenue stream that is useful in managing the City finances.

The allocation of one-twelfth of the expected property tax revenues monthly would smooth out the City's monthly property revenues and enhance the City's monthly internal financial statements as a management tool.

## OTHER REPORTABLE CONDITIONS—CONTINUED

Recommendation 6: The Property Tax Collection Fund should pay all amounts owed to other governmental units.

As of December 31, 2003, the Property Tax Collection Fund failed to remit all the taxes it collected a number of years ago for other governmental units. These property tax collections were loaned to the City's General Fund to help finance the General Fund's working capital deficit.

The Property Tax Collection Fund should remit all property taxes owed as soon as administratively possible.

We consider the following reportable conditions contained in our July 31, 2003 letter as still applicable:

Recommendation 3: The accounting department should utilize a monthly closing checklist in conjunction with the preparation of monthly financial statements.

Recommendation 6: The system for tracking grant reimbursement requests and budget amendments of federal programs should be improved.

Recommendation 7: A system should be developed to ensure that all interfund transfers are recorded on a timely basis.

We consider the following other reportable conditions contained in our November 25, 2002 letter as still applicable:

### ***General***

Recommendation 8: Account balances should be reconciled to detailed supporting documentation on a timely basis.

### ***Receivable***

Recommendation 10: Accounts receivable and grant receivable balances should be reviewed periodically.

### ***Interfund Liabilities***

Recommendation 12: Due to/due from other funds accounts should be monitored and cleared in a timely manner.

### ***Utility Billing***

Recommendation 13: The Water Supply Fund revenues and cash collected should be recorded monthly in the proper fund.

Recommendation 14: The general ledger and customer detail of utility billing accounts receivable should be reconciled monthly.

Recommendation 15: Federal program expenditure reports should be filed with accurate financial information.